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RESTRICTIVE TRADE PRACTICES COMMISSION

REPORT

Concerning the Production, Distribution and
Sale of Zinc Oxide

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DEPARTMENT OF JUSTICE
OTTAWA

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EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

RESTRICTIVE TRADE PRACTICES COMMISSION

REPORT

CONCERNING THE PRODUCTION, DISTRIBUTION AND
SALE OF ZINC OXIDE

COMBINES INVESTIGATION ACT

Ottawa
1958



RESTRICTIVE TRADE PRACTICES COMMISSION

OTTAWA

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RESTRICTIVE TRADE PRACTICES COMMISSION

Mr. J. C. Macfarlane, P.C., Q.C., M.A., LL.B., B.C.L.

Minister of Justice

Ottawa

Sir:

I have the honour to submit to you herewith the report of the Restrictive Trade Practices Commission dealing with the *Canadian Automobile Association* and *the Canadian Automobile Association of America*.

C. Rhodes Smith, Q.C., M.A., LL.B., B.C.L.
Chairman

The Commission was constituted by the substitution of a member of the Board of Inquiry for the Director of Investigation and Inspection under the Combines Investigation Act and has been appointed in accordance with the provisions of Sections 11 and 12 of the Act.


Reference was made to the report of the Commission on Combines made by the Director of Investigation and Inspection on May 1, 1939. In these proceedings, Mr. J. C. Macfarlane, P.C., Q.C., M.A., LL.B., B.C.L., Minister of Justice, appeared on behalf of the Director of Investigation and Inspection, and Mr. J. C. Macfarlane, P.C., Q.C., M.A., LL.B., B.C.L., appeared on behalf of the Canadian Automobile Association of America.

A. S. Whiteley, B.A., M.A.
Member

Yours faithfully,

J. C. Macfarlane

J. C. Macfarlane
Chairman



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RESTRICTIVE TRADE PRACTICES COMMISSION

OTTAWA

July 3, 1958

Honourable E. Davie Fulton, P.C., Q.C., M.P.,
Minister of Justice,
Ottawa.

Sir:

I have the honour to submit to you herewith the report of the Restrictive Trade Practices Commission dealing with the production, distribution and sale of zinc oxide.

The matter was brought before the Commission by the submission of a statement of the evidence obtained in an inquiry by the Director of Investigation and Research under the Combines Investigation Act and has been dealt with in accordance with the provisions of Sections 18 and 19 of the Act.

Evidence and argument in regard to the Statement of Evidence were heard by the Commission in Ottawa on March 6 and 7, 1958. In these proceedings Messrs. F.N. MacLeod, G.C. Wilkes and I. Brecher appeared on behalf of the Director of Investigation and Research, and Messrs. Hazen Hansard, Q.C. and G.R. Hunter, Q.C. appeared on behalf of Zinc Oxide Company of Canada Limited and Hudson Bay Mining and Smelting Company Limited respectively.

Yours faithfully,

(Sgd.) C. Rhodes Smith

C. Rhodes Smith
Chairman

CONTENTS

	Page
Chapter I - Introduction	1
1. Reference to the Commission	1
2. Hearings and Witnesses	9
3. Position Taken by the Parties with Respect to the Statement of Evidence	11
Chapter II - Zinc Oxide and Its Uses	15
1. Manufacturing Processes	15
2. Uses of Zinc Oxide	16
3. Tariff Duties	20
4. Supply of Zinc for the Manufacture of Zinc Oxide in Canada	20
5. Pricing of Refined Zinc by Canadian Producers	26
Chapter III - The Zinc Oxide Industry in Canada up to 1954	35
1. Zinc Oxide Company of Canada Limited	35
2. Financial History of ZOCO	37
3. Durham Industries (Canada) Limited	38
4. Zinc Oxide Price Lists	42
5. Situation in Zinc Oxide Industry Following Entrance of Durham Industries	42
6. Canadian Zinc Oxide Market in 1953	50
7. Organization of Canadian Felling Zinc Oxide Limited	61

	Page
Chapter IV - Developments in Canadian Zinc Oxide Market after Entrance of Canadian Felling Zinc Oxide Limited	63
1. Canadian Felling Zinc Oxide Limited	63
2. The Canadian Zinc Oxide Industry in 1954	64
3. Inquiries by Canadian Felling as to Supplies of Hudson Bay Zinc	65
4. Increasing Price Competition in Canadian Zinc Oxide Market after Entrance of Canadian Felling	69
5. Hudson Bay Assists ZOCO to Make Further Reduction in Zinc Oxide Prices	78
6. Acquisition of Durham Industries by ZOCO	84
7. Continuation of Price War After Acquisition of Durham Industries by ZOCO	101
8. Termination of the Price War	116
9. Relative Positions of Zinc Oxide Producers	120
Chapter V - Conclusions and Recommendations	125
1. Conclusions	125
2. Recommendations	137

TABLES

	Page
I - Consumption of Zinc Oxide in Canada, 1945-56	18
II - Consumption of Zinc Oxide and Titanium Pigments in Canadian Paint Industry, 1939, 1945 and 1956	19
III - Consumption of Refined Zinc (Primary and Secondary) in Canada, 1955-57	22
IV - Differentials in Canadian Zinc Prices, 1947-57	29
V - Financial Statistics for Zinc Oxide Company of Canada Limited	37
VI - Financial Statistics for Durham Industries (Canada) Limited	40
VII - Domestic Sales and Imports of Zinc Oxide, 1945-56	43
VIII - Imports of Zinc Oxide, by Months, 1953 and 1954	77
IX - Estimated Spreads Between Unit Zinc Metal Costs and Unit Zinc Oxide Prices for Three Canadian Zinc Oxide Producers on Specific Dates	122

APPENDICES

A - SCHEDULES

Page

1.	Brands of Zinc Oxide Manufactured by Zinc Oxide Company of Canada Limited	139
2.	Brands of Zinc Oxide Manufactured by Durham Industries (Canada) Limited	141
3.	Brands of Zinc Oxide Manufactured by Canadian Felling Zinc Oxide Limited.	144
4.	Calculation of Margins Over Raw Material Costs in the Zinc Oxide Industry	146
5.	Unit Costs, Zinc Oxide Industry	148
6.	Margins Over Raw Material Costs, Zinc Oxide Industry.	152
7.	Market Prices of Zinc and List Prices of Zinc Oxide, Showing Dates of Price Changes	155
8.	United States Prices, Zinc and Zinc Oxide, 1950-57	160

B - TABLES

1.	Consumption of Zinc Oxide and Titanium Pigments in the Canadian Paint Industry, 1932, 1945, 1954 and 1956	163
2.	Regional Distribution of Industries Comprising the Principal Markets for Zinc Oxide in Canada, 1955	164
3.	Production of Zinc Oxide in Canada by Three Producers, 1945-56.	165
4.	Distribution of Zinc Oxide Market in Canada Among Zinc Oxide Producers and Imports, 1945-56	166

Appendices (continued)

B - TABLES (continued)	<u>Page</u>
5. Sales of Zinc Oxide by Three Canadian Producers, 1945-56	167
6. Production and Sales of Zinc Oxide by Zinc Oxide Company of Canada Limited, 1945-56	168
7. Production and Sales of Zinc Oxide by Durham Industries (Canada) Limited, 1947-56	169
8. Production and Sales of Zinc Oxide by Canadian Felling Zinc Oxide Limited, 1954-56	170
9. Imports of Zinc Oxide into Canada by Origin, 1945-57	171
10. Average Unit Value of Zinc Oxide in the Canadian Market, 1945-56	172
11. Production of Refined Zinc in Canada, 1948-56	173
12. Production and Export of Zinc, 1948-56	174
13. Domestic Sales of Zinc by Hudson Bay, 1948-55	175
14. Domestic Shipments of Zinc by Hudson Bay, 1948-55	176
15. Domestic Sales of Zinc by Cominco, 1948-55	177
16. Domestic Sales and Exports of Zinc by Hudson Bay and Cominco, 1948-55	178
17. Financial Data for Zinc Oxide Company of Canada Limited, 1945-56	179
18. Undepreciated and Depreciated Value of Assets Employed in Production of Zinc Oxide, Zinc Oxide Company of Canada Limited, 1945-55	180

Appendices (continued)

C - ORIGINAL FRENCH TEXT OF DOCUMENTS CITED IN	<u>Page</u>
REPORT IN TRANSLATION	181

CHAPTER I

INTRODUCTION

1. Reference to the Commission

This inquiry was brought before the Restrictive Trade Practices Commission by the Director of Investigation and Research under the Combines Investigation Act, pursuant to section 18 of the Combines Investigation Act, R.S.C. 1952, Chapter 314, the terms of which are as follows:

"18. (1) At any stage of an inquiry,

- (a) the Director may, if he is of the opinion that the evidence obtained discloses a situation contrary to section 32 or 34 of this Act, or section 411 or 412 of the Criminal Code, and
- (b) the Director shall, if so required by the Minister, prepare a statement of the evidence obtained in the inquiry which shall be submitted to the Commission and to each person against whom an allegation is made therein."

The Director of Investigation and Research under the Combines Investigation Act submitted to the Restrictive Trade Practices Commission and to Zinc Oxide Company of Canada Limited (therein referred to as ZOCO) and Hudson Bay Mining and Smelting Company Limited (therein referred to as Hudson Bay) a Statement of Evidence, dated the 14th day of November, 1957 containing allegations against these companies to the following effect:

- "2. The allegations are to the effect that the arrangements between Hudson Bay and ZOCO which enabled ZOCO to undersell its domestic competitors and bring about ZOCO's acquisition of Durham Industries (Canada) Limited constitute a combination; that the acquisition of Durham Industries by ZOCO is a merger, trust or monopoly; that ZOCO's control of 90 per cent of the zinc oxide industry is a merger, trust

or monopoly; that the combination and merger, trust or monopoly have operated and are likely to operate against the interest and to the detriment of the public within the meaning of the Act; and that ZOCO sold zinc oxide at prices unreasonably low with the design and effect of eliminating competition within the meaning of Section 412(1)(c) of the Criminal Code. . . ."

Canadian manufacturers of zinc oxide in recent years have been Zinc Oxide Company of Canada Limited, incorporated December 17, 1932, with its factory in Montreal, P.Q.; Durham Industries (Canada) Limited, originally incorporated April 19, 1947, and having its factory in Montreal, P.Q. since 1949, and Canadian Felling Zinc Oxide Limited, incorporated January 27, 1954, with its factory at Milton, Ontario.

The concluding chapter of the Statement of Evidence, which contains the Director's allegations of detriment, has as its first part the following review of evidence (the paragraph numbers are those of the Statement):

"403. The zinc oxide industry in Canada plays an important, if minor, part in the country's economy. This was brought out in the description of the uses of zinc oxide in the rubber, paint, synthetic textile and other industries. The zinc oxide industry is also an important outlet for the sale of zinc in Canada. It was noted above that in 1955 the zinc oxide producers purchased over 7,300 tons of zinc, almost 11 per cent of the total tonnage sold in the Canadian market and about 3 per cent of the Canadian zinc industry's total sales. Finally, in this respect, sales of zinc oxide in the same year totalled over \$2,500,000 in value.

404. The markets for zinc oxide in this country have been shown to be situated chiefly in Ontario and Quebec, with Ontario consumers accounting for by far the larger proportion. The advantages of Montreal and Milton as plant sites for the zinc oxide producers were discussed. Both Durham Industries and ZOCO in Montreal are better placed than Canadian Felling to compete in foreign markets and in the Vancouver-Victoria market because of their ready access to sea-borne shipping facilities, but they suffer a disadvantage in the higher freight rates on shipments to the Ontario paint and rubber industries. Canadian Felling at

Milton is closer than its competitors to the major zinc oxide markets in Canada.

405. In the discussion of the factors affecting the entrance of new producers into the zinc oxide industry, the financial record of ZOCO was reviewed in some detail for the years 1945 to 1955 inclusive. Throughout that period, the company was, apparently, in a sound financial position and enjoyed substantial earnings. For the years 1945-55 inclusive, dividends totalling in value \$960 per common share were paid out and of this amount more than \$632 per share was received in cash by the shareholders. Note was also made of the relationship of the net income of the company to its net worth during the period. Although considerable variation was noted in the ratios from year to year, the results were generally very satisfactory, although not necessarily out of line with results in other chemical industries. However, comparison of such ratios with results in other industries falls short of giving the complete picture of the level of profits earned by ZOCO. A very large part of the assets of this company during the period under review was represented either by investment in assets unrelated to the zinc oxide operation or by cash. Profits accumulated over the years enabled the Company to pay the shareholders substantial dividends in redeemable preferred shares. In six of the eleven years reviewed the net income of ZOCO (after taxes) exceeded the capital cost value, before depreciation, of the assets employed in the production of zinc oxide in those years, and in each of the eleven years it was equal to several multiples of the depreciated assets for the corresponding years. Such rates of return could scarcely fail to appear attractive to those who were in a position to estimate them even approximately. That other firms, acquainted with the industry, were competent to assess the returns earned, there is little doubt. In any event two new firms were attracted into the industry in the period under review.

406. Excess capacity in the zinc oxide industry was noted in relation to the extent of the zinc oxide market in Canada. This market has shown no tendency towards expansion, remaining in the neighbourhood of 10,000 tons annually since 1945, and a significant percentage of this has continued to be supplied by imported oxides. ZOCO has reported its production capacity at 20,000 tons annually. Thus, in physical terms, this company could apparently produce more zinc oxide than the domestic market would absorb. The entry

of Durham Industries brought an additional 10,000 tons of capacity into the industry and Canadian Felling added another 3,500 tons. While production capacity greatly in excess of aggregate market requirements had undoubtedly been created, the new entrants had also introduced not only a considerable measure of competition to the industry but also greater flexibility.

407. The different zinc oxides produced by the three Canadian companies are listed and described in Schedule I. ^{*} All three producers use the French- or 'indirect'-process, ZOCO and Canadian Felling exclusively. Durham Industries has American- or 'direct'-process facilities also. ZOCO's oxides have differed from French-process oxides produced by Durham Industries and Canadian Felling because ZOCO has used the rotary kiln method rather than the crucible method of production. In some properties ZOCO's oxides have apparently resembled American-process oxides, being large particled (.40 microns) and acicular or crystalline in form. French-process oxides of the other two companies were smaller-particled (up to .30 microns) and amorphous or round in form. These two companies could also produce fine-particled oxides (up to .20 microns). No attempt is made to list here the uses to which the different oxides are put: different paint formulations and different rubber curing methods usually call for oxides with different specifications. It may be stated that all three producers sold the principal oxides required in the major markets. In addition Durham Industries has listed certain special surface-treated oxides for use in the rubber industry, as well as pelletized oxides: Canadian Felling was apparently also in a position to produce pelletized oxides.

408. Imported zinc oxides appear to have offered considerable competition to domestic products. In some instances it appears that zinc oxide from the United States may have been imported by Canadian firms upon instructions from the United States parent companies. Beyond such instances, United States oxides, although subject to tariff, were generally a competitive factor. British oxides have been strongly competitive pricewise. Total imports of zinc oxide, however, approximated only 11 per cent of the Canadian market and, while the possibility of imports would appear to

have set a ceiling on Canadian zinc oxide prices, the competitive influence of such imports was limited by such considerations as tariffs, delivery and service.

409. The evidence suggests that, before the 'price war', some understandings existed in respect of prices between ZOCO and Durham Industries. During the 'price war' which may be considered to have extended from January 1, 1955, to February 20, 1956, both Canadian Felling and Durham Industries sought, through discussions with ZOCO, to have ZOCO increase zinc oxide prices over existing levels.

410. The tables of production and sales of zinc oxide in the Statistical Appendix and Schedule V* indicate that ZOCO has been and still is the largest producer of zinc oxide in Canada. Up until the end of 1947, when Durham Industries became established, ZOCO had almost a complete monopoly of Canadian production. ZOCO's dominant position became seriously threatened after 1949 by the new company. Durham Industries achieved considerable success both in the domestic market and in the export market, and this had considerable effect in reducing ZOCO's net profits. Also, during the years 1949-52, the average unit values of Canadian produced zinc oxide were considerably higher than the average unit values of imported oxides, particularly United Kingdom oxides. The latter oxides appear to have given ZOCO considerable concern.

411. In the face of this import competition, and competition from Durham Industries, ZOCO's higher metal costs became increasingly significant. ZOCO's rotary kiln process could apparently produce the high quality Blue Seal grade of oxide, for which the Company was chiefly known, most simply and efficiently if very pure metal of High Grade quality or better were used; lower grade Prime Western zinc or secondary metal could be processed if additional costs were incurred for treating this material to remove its impurities prior to its conversion to zinc oxide. However, as the largest Canadian customer for Hudson Bay's High Grade zinc, ZOCO was apparently in a comparatively strong position to negotiate with Hudson Bay for a reduction in the

These tables appear in Appendix B to this report,

price of its zinc: thereby ZOCO could reduce its metal costs. Commencing February 1952, ZOCO was able to obtain successive price concessions from Hudson Bay whereby it purchased its High Grade zinc at reduced prices first as 'Oxide' grade and, after February 1953, as 'Special' brand zinc. By February 1953, ZOCO was buying Special brand zinc at the same price as its competitor paid for Prime Western zinc: this price concession continued at the same level throughout the remainder of 1953 and all of 1954. Because Hudson Bay was earning a greater return on its zinc sold in Canada than on the same zinc sold in the export market, it was able to make these price concessions and still be better off than if it had had to find an equivalent market in the United Kingdom for the zinc sold to ZOCO. In order that Hudson Bay's general price level should not be lowered, it was to the Company's advantage that the concessions to ZOCO be kept confidential, and they were kept confidential at all relevant times. On ZOCO's zinc purchases up to the end of 1954, the price concessions amounted to a total of \$272,456. These were the circumstances when the advent of Canadian Felling, in the spring of 1954, with its new plant situated in the centre of the principal zinc oxide market, raised additional problems for ZOCO.

4. To assist ZOCO further in meeting its difficulties, Hudson Bay agreed to extend its price concessions and also to increase them so that, beginning January 1955, ZOCO was able to purchase its High Grade zinc at a price one cent per lb. below the price of Prime Western zinc. This assistance by Hudson Bay was considerable and quite significant. On ZOCO's purchases of Special brand zinc in 1955, the price concessions below the price of High Grade zinc totalled \$247,080; of this, \$105,140 was made up by the one cent concession below the Prime Western price. Whatever the origin of these price concessions and their relation in the beginning to import competition, their character by 1955 was clearly established as secret discounts, given and received in an otherwise non-competitive market for the express purpose of providing ZOCO with the means whereby it could temporarily reduce its prices and, by underselling them, attempt to eliminate the competition of Durham Industries and Canadian Felling. Thus ZOCO would, if successful, re-establish its monopoly control over the industry.

413. In 1954, Hudson Bay held discussions with Canadian Felling with a view to supplying that Company with its zinc requirements. However, Canadian Felling, when offered no Hudson Bay zinc cheaper than Electrolytic brand at the customarily quoted price for High Grade zinc, decided to purchase the cheaper Prime Western zinc from Cominco. Hudson Bay never offered its Oxide grade or Special brand grades, on which ZOCO received its price concessions, to either Durham Industries or Canadian Felling and, being secret brands, neither of these zinc oxide producers knew about their existence.

414. Hudson Bay, in the course of the hearings for taking evidence, sought to distinguish between its ordinary High Grade zinc on the one hand and the Oxide and Special grades on the other hand, on the ground that the latter were to some extent inferior and in any event carried no assay guarantees. It is apparent from the evidence that no real distinction was involved. Even, however, if some real distinction had been involved, this would not affect the fact that Hudson Bay supplied ZOCO with a secret grade at a secret price for the purpose of assisting ZOCO to put Durham Industries and Canadian Felling out of business. Furthermore, after May 1955, the zinc supplied to ZOCO as Special grade at the reduced price was admittedly the ordinary High Grade.

415. It was clearly ZOCO's intention, by means of the 'price war', to try to establish a monopoly of the zinc oxide industry in Canada and in this endeavour Hudson Bay aided and abetted ZOCO. . . .

416. The conspiracy between ZOCO and Hudson Bay achieved at least partial success. ZOCO's purchase of the share capital of Durham Industries [in June, 1955] gave it control of the major portion of the domestic zinc oxide production capacity and of the Canadian market; as of April 1956 ZOCO, together with Durham Industries, controlled 90 per cent of the industry's production capacity: during 1956, on a volume basis, the same two companies accounted for 85.6 per cent of zinc oxide production, 80.2 per cent of the sales in Canada, and 85.7 per cent of the total sales of the Canadian producers. Moreover the 'price war' gravely weakened the financial strength of the remaining producer, Canadian Felling.

47. Following its acquisition of Durham Industries, ZOCO sought, and for a time succeeded, to operate Durham Industries as an apparently independent firm. The purpose was to conceal from the public the fact that ZOCO owned Durham Industries, to lead the public to believe that the two firms were in competition with each other, and, by such course of action, to divert to the amalgamated firm business that might otherwise have gone to Canadian Felling."

The following specific allegations are contained in the Statement of Evidence.

427. On June 6, 1955, ZOCO, being the dominant manufacturer in Canada of zinc oxide, purchased all the outstanding share capital of Durham Industries, the second most important manufacturer. ZOCO and Durham Industries between them controlled 90 per cent of the zinc oxide production capacity in Canada and in 1956 accounted for 85.6 per cent of production and 80 per cent of sales in the Canadian market.

428. The acquisition of Durham Industries by ZOCO was the result of a design, on the part of ZOCO, to eliminate or lessen competition unduly in the zinc oxide industry, either establishing for ZOCO a complete monopoly position or by attaining for it a position whereby it could control the price policy of the industry, thereby placing ZOCO in a position to realize monopoly profits.

429. By acquiring Durham Industries and impairing the financial position of Canadian Felling, ZOCO succeeded substantially in carrying out its design.

430. Hudson Bay deliberately assisted ZOCO in implementing this design by granting ZOCO secret price concessions, which concessions enabled ZOCO to pursue a temporary policy of abnormally low prices for the purpose of eliminating, or bringing about an amalgamation with, its two competitors. Such price concessions were made from market prices which Hudson Bay held itself out, expressly or by implication, to its other zinc customers to be following: and Hudson Bay sought to conceal such concessions from its other customers and the public by various devices.

431. It is alleged, by reason of the evidence detailed in the foregoing paragraphs, that:

- (1) the arrangements between ZOCO and Hudson Bay constitute a combination to lessen competition unduly;
- (2) the amalgamation of ZOCO and Durham Industries constitutes a merger, trust or monopoly within the definition of Section 2(e)(i) and (ii) of the Combines Investigation Act, which merger, trust or monopoly has operated and is likely to operate to the detriment of the public;
- (3) Hudson Bay has knowingly engaged in a policy of discriminating against competitors of ZOCO by allowing to ZOCO a price advantage over and above any price advantage available at the same time to such competitors in respect of sales of goods of like quality and quantity.
- (4) ZOCO has engaged in a policy of selling goods at prices unreasonably low, having and designed to have the effect of substantially lessening competition and eliminating competitors."

2. Hearings and Witnesses

In the course of the inquiry made by the Director, information was obtained by him from correspondence and written returns from Zinc Oxide Company of Canada Limited, Durham Industries (Canada) Limited, Hudson Bay Mining and Smelting Company Limited, Canadian Felling Zinc Oxide Limited and The Consolidated Mining and Smelting Company of Canada Limited. These companies are generally referred to in this report as follows:

Zinc Oxide Company of Canada Limited	ZOCO
Durham Industries (Canada) Limited	Durham Industries
Hudson Bay Mining and Smelting Company Limited	Hudson Bay
Canadian Felling Zinc Oxide Limited	Canadian Felling
The Consolidated Mining and Smelting Company of Canada Limited	Cominco

Representatives of the Director visited offices of ZOCO, ~~Petroleum~~ Industries, Hudson Bay and Cominco and obtained from them for copying at Ottawa documents deemed relevant to the inquiry. Visits were also made for the same purpose to offices of The Pigment and Chemical Company Limited, where records of Canadian Felling were located, and to the premises of Canada Cold Storage Company Limited in Montreal. When these documents were selected they were all marked with three code letters to indicate the particular premises on which they were found and with numbers. Subsequently each sheet of every document was marked with a separate serial number, by which it may be distinguished from all other documents. The serial numbers of all documents cited in this report are given when reference is made to them.

At a hearing held before the Chairman of the Commission at Winnipeg on May 7, 1956 evidence was taken from the following officials of Hudson Bay: Erich Weber, Assistant Secretary-Treasurer; C.O. Buchanan, Technical Sales Representative; and E.S. Austin, Superintendent of the Zinc Plant.

After receipt of the Statement of Evidence by the Commission and by the parties against whom allegations were made therein, the Commission, by an order dated December 10, 1957, fixed Monday, the 3rd day of March, 1958, at 10 o'clock in the forenoon, in Room 200, Dominion Bureau of Statistics Building, Tunney's Pasture, Ottawa, Ontario as the date, time and place at which argument in support of the Statement of Evidence could be submitted and at which persons against whom any allegation had been made in such Statement would be allowed full opportunity to be heard in person or by counsel, in conformity with section 18(2) of the Act. In giving notice thereof, the Commission further informed the parties that at such hearings they would be given an opportunity of further examining, or cross-examining, any witness who had been heard during the course of the inquiry, and would also be given an opportunity to call additional witnesses and to submit any additional documentary evidence. Subsequently, at the request of the parties concerned for a brief postponement, the Commission changed the date of the hearing to March 6, 1958 and the place of hearing to a Court Room of the Exchequer Court in the Supreme Court Building, Ottawa.

The hearing commenced on March 6, 1958 and concluded on March 7, 1958, the following appearances being registered:

F.N. MacLeod - for the Director of Investigation
G.C. Wilkes and Research
I. Brecher

Hazen Hansard, Q.C.
- for Zinc Oxide Company of Canada
Limited

G.R. Hunter, Q.C. - for Hudson Bay Mining and Smelting
Company Limited.

At the hearing and before argument was heard by the Commission, Mr. F. Eugene Therrien, a director of Zinc Oxide Company of Canada Limited, and Mr. C.O. Buchanan, Manager of Metal Sales, Hudson Bay Mining and Smelting Company Limited, were called to give evidence on behalf of the parties and were examined by counsel. Certain exhibits, numbered H-1 to H-11, were also received.

For purposes of clarity, reference in this report to evidence given at the earlier hearings for the taking of evidence will be made as follows: "Evidence, p. . . .". Reference to evidence given at the hearing before the Commission will be made as follows: "Hearing, p. . . .".

3. Position Taken by the Parties with Respect to the Statement of Evidence

At the request of the Commission, following its usual practice, counsel for ZOCO and Hudson Bay submitted written briefs before the opening of the hearing setting out the positions taken by their respective clients with respect to the Statement of Evidence and the points on which issue was taken with the Director.

- (1) Both counsel took the position that in the Statement of Evidence the Director had so intermingled facts, inferences and conclusions that it was impossible or virtually impossible to separate allegations of fact from inferences made by the Director. Counsel for

ZOCO stated that much of the material referred to in the Statement of Evidence was no doubt factual and would raise no issue of fact.

- (4) Counsel for Hudson Bay submitted that the Director had made a selection of documents found on the premises of the parties and that, in doing so, he had not been concerned with putting all the facts before the Commission or in giving a fair and unbiased interpretation to such documents. On behalf of ZOCO it was submitted that the Statement of Evidence was drawn up so as to create as unfavourable an impression as possible and to give rise to unfounded inferences which do not arise if the whole of the facts are fairly presented. It was also submitted that the Statement was not in accordance with the requirements of section 18 of the Act. Counsel for ZOCO referred to excerpts from personal letters of the President of ZOCO which are set out in the concluding chapter of the Statement (fuller quotations from the letters having been given earlier in the Statement) and submitted that such letters contain expressions which have obviously been used in a jocular vein. It was also submitted that the presentation of excerpts in this way tends to convey an unfavourable impression which was completely false.

In the briefs for both parties it was pointed out that in the Statement of Evidence the Director relied on documents which were never put for identification or explanation to any witness and that in the inquiry opportunity had not been given for a witness to explain or amplify the information contained in the documents.

- (11) Issue was taken on behalf of ZOCO with the conclusion of the Director that, "It is both impossible and irrelevant to attempt to establish in this Inquiry who first 'cut' prices." It was submitted that the evidence establishes that the so-called "price war" was started by Canadian Felling in response to a refusal by ZOCO to have anything to do with a suggestion by Canadian Felling that they enter into an agreement to increase prices.

- (5) Issue was taken by both parties with the allegations of detriment and the specific allegations contained in Chapter V of the Statement of Evidence. The following submissions were made on behalf of ZOCO in regard to paragraph 431 of the Statement of Evidence:

"1. Paragraph 1 discloses no offence either under the Combines Investigation Act or under the Criminal Code. Moreover, in any event, the relationship between Hudson Bay and ZOCO was at all times that of a supplier of raw material on the one hand and a purchaser thereof on the other. There was no conspiracy between them, as stated elsewhere in the Director's Statement, and no common design upon which a charge of conspiracy could be founded.

2. As to paragraph 2, there was no 'amalgamation' of ZOCO and Durham Industries. The former purchased the outstanding shares of the latter for a legitimate business reason and as a result of offers made by the latter. No monopoly or control position prohibited by law was thereby created. Moreover, in any event, there has been no operation to the detriment of the public nor is there likelihood of such.

3. As to paragraph 3, there was no policy of discriminating as therein alleged nor any practice of discriminating as required by law to constitute an offence. Moreover and in any event, any price advantages afforded ZOCO were so afforded for the legitimate reason of enabling it to continue in business and would likewise have been available to any competitor interested in like quality and quantity had there been such.

4. As to paragraph 4, the prices at which ZOCO sold were at no time unreasonably low within the meaning of the Statute nor were they established in connection with any such policy as is alleged. On the contrary, ZOCO's prices were established to meet and increase competition."

CHAPTER II

ZINC OXIDE AND ITS USES

1. Manufacturing Processes

The commercial manufacture of the pigment, zinc oxide, was started over a century ago in France and some time later its production was begun in the United States.

Brief mention of the processes used by manufacturers in Canada is made in paragraph 407 of the Statement of Evidence, quoted in the preceding chapter of this report. The following description of the processes in use was given in evidence by Mr. C.O. Buchanan, Manager of Metal Sales, Hudson Bay:

"Q. Can you describe briefly the difference as between the Cornillat process as used by ZOCO and the other type process used by Durham and Felling?

A. The Cornillat process is, as I have said, a rotary kiln process. As the kiln revolves the zinc coats the inside of this rotary kiln and is burned into oxide, whereas in the crucible type method the zinc is melted to a temperature that causes it to volatilize. As the zinc volatilizes off the crucible it boils in the air and is carried away to a bag house for collection.

The difference in the process lies in this fact, that in the crucible type process using Prime Western zinc it is possible to boil off the zinc in a preferable manner so that the zinc comes off and leaves the lead behind, and in the Cornillat process when Prime Western is used it is intimately mixed when the kiln is rotating and you produce a leaded oxide throughout the whole length of the run.

Q. Is it true then that in the Cornillat process you do require a higher purity of zinc?

- A. Yes; that is right, in order to keep away from leaded oxide."

(Hearing, p. 176)

Equipment for producing zinc oxide can be installed without large capital expenditure, according to the evidence given by Mr. F.E. Therrien, a director of ZOCO:

- "Q. Do you know if your company made any estimate of what it would cost them to put in a furnace to produce the other type of oxide you were telling my learned friend about? You said that Durham produced a different type or quality of oxide than ZOCO. Do you know what it would cost your company to install facilities to also produce that type?

- A. I know of the price because I was called to examine one which was replaced. The furnace itself, the Durham type of oxide furnace, would run to approximately \$3,500 for the furnace. I am not talking about the crucibles and I am not talking about the pipes or the collection chambers, I am talking only about the furnace itself. It would be in the neighbourhood of \$3,500 or \$4,000."

(Hearing, p. 117)

2. Uses of Zinc Oxide

The following account of the uses of zinc oxide is given in the Statement of Evidence:

- "13. Zinc oxide or zinc white as it is often called is a fine white powder whose colour tone and purity will vary depending on the raw material used in its manufacture. Density varies with temperature, rate of oxidation, and means of separation used in the manufacture. It is insoluble in water, alcohol, turpentine, benzene, white spirit and oil but is soluble in a number of acids. The pigment is not affected by the sun's rays or by rain and gases in the atmosphere.

14. One of the principal markets for zinc oxide in Canada is the rubber industry where, with natural and synthetic rubbers, it is utilized as an accelerator, activator, pigment and reinforcing agent. Its most important use is as an agent in the vulcanizing process. It is also used because of its high heat conductivity and low heat generation; in rubber tires it disperses heat evenly throughout to prevent excess build-ups at any point when the tire is in use. Over 47 per cent of consumption of zinc oxide in Canada in 1955 was by the rubber industry.

15. Another major market for this oxide, both leadfree and leaded, is the paint industry, which in Canada, in 1955, accounted for 35 per cent of consumption. Zinc oxide's fineness permits easy, smooth, even coating in paints. It has not as high a refractive index or hiding power as titanium dioxide and other titanium pigments. Besides these properties, zinc oxide in paints neutralizes acids and acid products resulting from the decomposition of binders. It has properties which inhibit action by fungi and it assists in preventing peeling and chalking. It is of particular value in gloss paints and enamels. Acicular oxides are preferable where good weathering properties are required: amorphous oxides are better where high pigmentation is wanted. Leaded zinc oxide, - 5 per cent, 15 per cent, 35 per cent and 50 per cent leaded being available - is used primarily for making priming paints. This type of oxide is made by either blending or co-fuming zinc oxide and basic lead sulphate in the desired proportions: i.e., 35 per cent leaded is 35 per cent lead sulphate and 65 per cent zinc oxide.

16. The third most important use of zinc oxide in Canada is by the synthetic textile producers who accounted for over 11 per cent of consumption in 1955. It is used in the processing and coating of the synthetic fibres.

17. In smaller quantities zinc oxide is used in the manufacture of oilcloth and linoleums, pharmaceutical ointments, lotions, cosmetics, and coated papers; in making glazes, enamel ware and certain types of glass; in improving tint retention of inks; and in discharge printing."

Table 1

Consumption of Zinc Diphosphate Compound, 1945 - 56

(Tons)

Year	Paint Industry ¹		Rubber Industry ²		Other Industries ³		All Industries ⁴	
	Lead	Sub-Total	Lead	Sub-Total	Lead	Sub-Total	Lead	Total
1945	1,327	2,901		4,228			1,327	*
1946	700	4,923		5,623			700	8,458
1947	1,546	5,209		6,755		1,066	1,546	10,609
1948	2,096	2,975		5,071		1,510	2,096	8,200
1949	1,071	2,013		3,084		1,464	1,071	6,231
1950	1,343	2,285		3,628		1,015	1,343	7,345
1951	1,110	2,185		3,295		1,151	1,110	7,451
1952	840	2,264		3,104		1,210	840	7,098
1953	494	2,593		3,087		1,207	494	7,882
1954	679	2,474		3,153		1,438	679	7,735
1955	594	2,551		3,146		1,606	594	8,449
1956	416	2,602		3,018		2,303	416	10,963

* Information not available.

- Sources:
1. Dominion Bureau of Statistics, The Paints, Varnishes and Lacquers Industry.
 2. Dominion Bureau of Statistics, The Rubber Products Industry.
 3. By differences.
 4. Data obtained from Metal and Chemical Products Section, Dominion Bureau of Statistics.

The statistics of the consumption of zinc oxide by various industries in Canada show that the demand is relatively static or "stagnant", in the words of one witness. The Director found that between 1945 and the time of the inquiry the Canadian zinc oxide market had shown, in the aggregate, no tendency toward expansion and remained in the neighbourhood of 10,000 tons per year. Mr. Therrien (2000) stated that he would put the figure only slightly higher. The summary figures given in Tables I and II support these views. In recent years production of zinc oxide in the United States, according to the evidence of Mr. Therrien, has ranged from 145,000 tons to 237,000 tons. Information secured by the Director indicates that the demand for zinc oxide in the United States also exhibits static conditions. In Canada, as in the United States, increased use by the rubber industry has been offset by decreased use by the paint industry, which has provided the principal outlet for titanium pigments.

Table II

Consumption of Zinc Oxide and Titanium
Pigments in Canadian Paint Industry,
1939, 1945 and 1956

<u>Year</u>	<u>Zinc Oxide</u> tons	<u>Titanium</u> tons
1939	3,568	2,544
1945	4,228	9,213
1956	3,018	27,324

Source: Dominion Bureau of Statistics, The
Paints, Varnishes and Lacquers Industry.

It will be seen from the above table that, while the use of zinc oxide in the paint industry has tended to decline, the use of titanium pigments, compared with the pre-war period, has increased many times.

3. Tariff Duties

For customs purposes zinc oxide and titanium pigments are classed under the same tariff item, number 242, which provides for duty-free entry of goods entitled to British Preference. The following comment on the tariff situation is made in the Statement of Evidence:

"24." In connection with the rapid rise in the use of titanium pigments in Canada in competition with older established pigments, it is important to note that up to the present these titanium pigments have all been imported into Canada, with the major proportion coming from the United States and the remainder from the United Kingdom. Both titanium and zinc oxide pigments come within the same tariff item, #242, which gives free entry to products entitled to British Preference, and sets the duty for Most Favoured Nations as negotiated by GATT at 12.5 per cent, and the General Tariff at 15 per cent. . . ."

Primary zinc metal, which is the basic material for the production of zinc oxide in Canada, comes under Tariff item 345a, which provides for poundage rates of duty of 3/4¢ under British Preference, and 1¢ under Most Favoured Nation and General Tariffs. Evidence was given that zinc metal imported into the United States is subject to a duty of .7¢ per pound on entry to that country. Producers of zinc products in the United States may import zinc and receive a drawback of 99 per cent of the duty if the products are exported.*

4. Supply of Zinc for the Manufacture of Zinc Oxide in Canada

Zinc is produced in Canada in the form of zinc concentrates and refined metal. The following comment on the production of zinc in the two forms appears in the Tariff Board report:

"Between thirty and forty mines produce zinc concentrates in Canada; however, the bulk of total output

is by The Consolidated Mining and Smelting Company of Canada Limited (Cominco) and Hudson Bay Mining and Smelting Company Limited. These firms operate the only two zinc smelters in the country, that of Cominco being located at Trail, British Columbia, and that of Hudson Bay at Flin Flon, Manitoba. It is understood that these two basic producers smelt their own concentrates plus small tonnages purchased from independent mines. Concentrates produced by independent mines in British Columbia are shipped to smelters in the United States for refining; concentrates produced in provinces east of Manitoba are usually smelted in the United States, although small quantities find their way to the United Kingdom and other overseas markets.

As the primary producers pointed out in their briefs, Canadian production of zinc concentrates and of refined metal is largely for external markets. The domestic market, which has expanded greatly in recent years with the development of galvanized steel production in Canada, still consumes less than 15 p.c. of total domestic output of primary zinc. . . ."

The following figures for consumption of slab zinc in Canada have been obtained from the Department of Mines and Technical Surveys:

*

Ibid., pp. 23-24.

Table III

Consumption of Refined Zinc (Primary
and Secondary) in Canada, 1955-57

	(tons)		
	1955	1956 [*]	1957 ^{**}
Electro-galvanizing	1, 091	1, 130	964
Hot-dip galvanizing	26, 955	32, 125	25, 616
Zinc die-cast alloy	10, 464	9, 253	8, 517
Brass and bronze	9, 350	7, 699	6, 678
Other alloys	678	683	639
Rolled & ribbon zinc	1, 395	1, 284	1, 136
Zinc oxide	7, 141	7, 494	7, 778
Zinc castings	603	753	667
Other uses	797	752	718
Total	58, 474	61, 173	52, 713

* Revised

** Preliminary

Source: Department of Mines and Technical Surveys, Zinc in Canada, 1956 and preliminary figures for 1957.

It will have been noted from the evidence of Mr. Buchanan already quoted that the grade of zinc metal is a significant factor in the production of zinc oxide. The Statement of Evidence contains the following description of the grades of zinc metal:

"46. Several grades of zinc are cast by the producers. Differences in grade depend upon the percentages of different impurities, such as lead, cadmium, iron, or aluminum, which are present with the zinc. The following table provides the maximum specifications as to chemical impurities in zinc for the different grades recognized by the American Society for Testing Materials, (hereinafter referred to as 'A.S.T.M.').

TABLE 2

CHEMICAL REQUIREMENTS FOR SLAB ZINC

A.S.T.M. Standards

Grade	Lead Max %	Iron Max %	Cadmium Max %	Aluminum	Sum of Lead, Iron, Cadmium, Max %
1.a. Special High Grade	0.006	0.005	0.004	None	0.010
1. High Grade	0.07	0.02	0.07	None	0.10
2. Intermediate	0.20	0.03	0.50	None	0.50
3. Brass Special	0.60	0.03	0.50	None	1.0
4. Selected	0.80	0.04	0.75	None	1.25
5. Prime Western	1.60	0.08			

Source: 1955 Book of A.S.T.M. Standards, Including Tentatives:
Part 2, Non-Ferrous Metals. American Society for
Testing Materials, Philadelphia, 1955, p. 26.

Other impurities such as tin, copper, and sulphur, may be present but their quantities together with the above listed impurities should not exceed the maximum total tolerance levels noted.

47. The principal grades of zinc produced in Canada are Special High Grade, which includes the brands Four Nines Plus or F.N.P. of Hudson Bay and Tadanac 99.99+ of Cominco; High Grade, which includes the brands Electrolytic or Electro of Hudson Bay and Tadanac A of Cominco; and Prime Western, which includes the Tadanac brand of Cominco. Hudson Bay casts only Special High Grade as Four Nines Plus brand and High Grade as Electrolytic or Electro brand and

certain other minor brands or grades as noted below, because, mining ores having only a copper-zinc complex, its zinc is virtually lead free. Production of Prime Western zinc would require them to purchase lead with which to debase their purer zinc, which Hudson Bay states is an uneconomical process in view of the relative prices of High Grade and Prime Western zincs (Evidence, p. 20). Hudson Bay claims that its Special High Grade zinc conforms to the British standard for this grade which has a maximum lead content of 0.003 per cent (Evidence, p.49). Cominco produces all three principal grades as well as Brass Special, and special alloys for Burgess Battery Company and The Steel Company of Canada Limited.

48. Representative analyses of zinc brands from Hudson Bay and Cominco are given in Table 3:

TABLE 3
REPRESENTATIVE ANALYSES* OF DIFFERENT BRANDS OF
ZINC PRODUCED IN CANADA

Company and Brand	Lead %	Cadmium %	Iron %	Copper %	Zinc %
<u>Hudson Bay (1953) ⁽¹⁾</u>					
Four Nines Plus	0.0018	0.0004	0.0004	0.0023	99.9951
Electrolytic	0.0041	0.0004	0.0013	0.0025	99.9917
<u>Cominco (1952?) ⁽²⁾</u>					
Tadanac 99.99+	0.003	0.001	0.001	0.001	99.994
Tadanac A	0.015	0.001	0.001	0.001	99.97
Tadanac Prime Western	0.9	0.002	0.003	0.001	99.0

* Analyses used by the two producers as representative of the quality of their brands of zinc.

(1) Letter, Serial #752.

(2) The Cominco Story; p. 20, The Consolidated Mining and Smelting Company of Canada Limited, 1953 (?)."

Tables showing production and sales of zinc by Hudson Bay and Cominco are included as Tables 13, 14, 15 and 16, Appendix B. These show that sales of refined zinc in the Canadian market by the two companies totalled almost 68,390 tons in 1955, of which almost three-quarters were sold by Cominco and the remainder by Hudson Bay. Canadian zinc oxide producers in that year purchased almost 7,330 tons of zinc spelter or slightly less than 11 per cent of the tonnage sold in the domestic market. In view of the fact that the greater part of Canada's zinc production is exported, imports of zinc metal would be unlikely and there were no imports in 1955.

The following analysis of the purchase of refined zinc by zinc oxide producers in Canada is given in the Statement of Evidence:

"50. Eleven out of 80 customers which made up Cominco's Canadian market in 1954 (Serial #2070, #2071 and #2072: data for 1955 unavailable) accounted for over 65 per cent of the tonnage sold. Each of these 11 customers bought in the vicinity of 1,000 tons or more during the year. They represent a good cross section of the principal outlets for zinc, being manufacturers of brass products, zinc oxide, galvanized steel wares, batteries, casting alloys, etc. Since 1948 domestic sales of refined zinc have varied between 17 and 27 per cent of Cominco's total sales: in 1955 domestic sales of almost 49,700 tons made up 24.9 per cent of total sales. Sales to zinc oxide producers totalled 1,920 tons in 1955: 1,460 tons to Durham Industries, 410 to Canadian Felling, and 50 tons to ZOCO.

51. Five companies out of some 16 Canadian customers of Hudson Bay in 1952 (the last year for which such information is available) accounted for 80 per cent of the tonnage that the Company sold in the Canadian market. Brass products manufacturers, die casters, and a zinc oxide producer were the principal outlets (Serial #814). Since 1948 domestic sales have comprised between 20 and 33 per cent of Hudson Bay's total sales and in 1955 domestic sales of over 18,690 tons made up 26.5 per cent of Hudson Bay's total sales of refined zinc. It is of interest that prior to 1948 Hudson Bay disposed of its zinc through the sales organization of Cominco. In 1948, the Company established its own sales organization headed by C.O. Buchanan (Serial #648). At that time ZOCO was Hudson Bay's largest Canadian customer for zinc

accounting for 65 per cent of the domestic sales and for almost 14 per cent of the Company's total sales. Since then sales to ZOCO have dropped in relative importance: in 1955 they totalled almost 5,410 tons, 29 per cent of Hudson Bay's Canadian markets and about 7.7 per cent of total sales. Despite this decline, ZOCO is still Hudson Bay's largest customer in Canada."

5. Pricing of Refined Zinc by Canadian Producers

Prices of refined zinc in Canada in the post-war period have tended to follow market prices established in the United States and published in trade and other papers in that country. Price announcements are made by Cominco in Canada and such prices are quoted in The Northern Miner and other Canadian papers. The following reference to market quotations for zinc in the United States is contained in the Statement of Evidence:

"54. In the United States two market prices for zinc are commonly quoted: f.o.b. East St. Louis and f.o.b. New York with the New York price regularly .50 cents per lb. higher than the East St. Louis price. The market price of Prime Western zinc East St. Louis is the basis used for most zinc price quotations and East St. Louis price quotations are published daily. The Engineering and Mining Journal, published by McGraw-Hill Publishing Co. New York, issues weekly its supplement Metal and Mineral Markets which regularly includes a table of United States daily and weekly average zinc prices.

5 The footnotes ordinarily appended to the table in Metal and Mineral Markets explain that the higher New York price is the result of the freight differential, and it is apparent that it is equivalent to the delivered price quoted by Metal and Mineral Markets. These footnotes also explain that the premium for High Grade zinc over Prime Western was 1.35 cents per lb. in January, 1956, and for Special High Grade, 1.75 cents per lb."

The following evidence was given by Mr. Erich Weber (Hudson Bay):

"BY THE CHAIRMAN:

Q. About the established price in Canada following that established in the United States did you mean that it

followed it exactly, or did it make allowance for duty from the United States to Canada, or what was the nature of the parallel price, was it exact?

- A. Let me explain that to you, Mr. Chairman, in this way. The zinc price for Prime Western is established in the United States by the various producers, and the basis of it is Prime Western price F O B East St. Louis, with a guarantee of not over a certain amount of freight to be paid to make delivery of that Prime Western. Then they have various grades of zinc produced as brass, special, and all kinds of grades that are really not even accepted in the trade, special requirements for special customers.

For the electro price of what they call grade A zinc, or what we call ordinary high grade there is a premium added to the Prime Western price of \$1.35 in the United States, and on special high grade of \$1.75, over the base Prime Western price.

BY THE CHAIRMAN:

- Q. Per pound?
- A. Per hundred pounds. However, in the case of all the electro and special high grade the producer pays the freight so sometimes the difference is not too great. Now, in Canada the accepted method is to take the U.S. price as the basis. However, that U.S. basis is F O B Toronto in place of F O B East St. Louis. Prime Western is also delivered F O B Toronto, as is also the high grade and special high grade. However, in Canada the premium on special high grade is only 1 1/2 cents over the Prime Western as against 1 3/4 in the United States. And the reason for that, as nearly as I can determine, it was never threshed out to a conclusion, was that we could not be accused of dumping special high grade in the United States if we sold it in Canada for 25 cents less than we got for it in the United States.
- Q. I was wondering whether you made any allowance for the duty between United States and Canada either way?
- A. No, because there is a duty on zinc coming into Canada, and also a duty going into the United States from Canada of 7-10ths of a cent.

Q. If you can export from Canada, and apparently by the record you did export to the United States, do they buy at the price here which is the same as that in the United States and pay the duty to get it in?

A. That is right -- let me get that question again.

Q. If you are selling zinc for export to the United States do the people in the United States who are buying it pay the same price in Canada they would pay for the same quality of zinc in the United States and then pay your duty?

A. We never sell them F O B Canada, we sell them F O B a United States point.

Q. Do you add the duty to the price?

A. Oh, no, we absorb the duty.

Q. You absorb the duty?

A. We have to."

(Evidence, pp. 77-9)

The Statement of Evidence contains the following summary of prices of refined zinc in Canada:

"59. According to the evidence, prices for Prime Western zinc in Canada and the United States are the same except that the United States' price is f.o.b. East St. Louis and that in Canada Cominco quotes its price f.o.b. Montreal and Toronto. It should be noted that prior to October 21, 1953, the Canadian price for Prime Western was the United States price, adjusted for the exchange values of the Canadian and United States dollars: after October 21, 1953, no adjustment was made for exchange values. According to Mr. Weber's evidence, prices for High Grade and Special High Grade zincs are 'delivered' prices based on the accepted differentials over the Prime Western price. . . ."

At times the differentials in Canadian prices for High Grade and Special High Grade have been the same as in the United States and at other times, as indicated in the evidence of Mr. Weber,

they have been different. The following table shows the differentials in Canada at January 2, 1947, when prices were under wartime controls, and since June 9, 1947, when prices were removed from controls:

Table IV

Differentials in Canadian Zinc Prices,
1947-57

(¢ per lb.)

<u>Date</u>	<u>Differentials Over Prime Western Zinc Prices</u>	
	<u>High Grade Zinc</u>	<u>Special High Grade Zinc</u>
January 2, 1947	.60	.85
June 9, 1947	.25	.75
January 21, 1948	.75	1.00
January 9, 1951	1.00	1.25
October 15, 1951	1.35	1.50
January 16, 1956	1.35	1.50
January 14, 1957	.60*	1.00*
* Department of Mines and Technical Surveys, <u>Zinc in Canada with Comments on World Conditions.</u> (Memorandum Series No. 137, 1958), p. 83		

Source: Serials 2078, 2079, 2084, 2096 and 816.

The extent of the variation in returns, between domestic and foreign markets, received by Canadian zinc producers may be illustrated by the use of examples. The following are among those contained in the Statement of Evidence:

"63. Canadian Prime Western zinc prices, it has been stated, are usually the same as prices in the East St. Louis market in the United States. The two Canadian producers sell in both the United States and Canadian markets and have customers who buy in both markets and who reportedly object to being quoted different zinc prices (Serial #654). The following extracts from memoranda prepared by Mr. Buchanan for Mr. Weber show that on the basis of quoting Canadian customers a price the same as the United States price, Canadian zinc producers have netted considerably more on their domestic sales than on exports. This is because of lower freight charges, and avoidance of customs duties and commissions and, latterly, as explained above, because of the tying of Canadian zinc prices directly to the United States price without adjustment in accordance with the favourable rate of exchange between the Canadian and United States dollars.

(i) From a memorandum dated January 16, 1953:*

'Net on Electro sold in U.S.A.

U.S. Price per lb.	13.85¢
IM&M Commission ⁽¹⁾	.125
Duty	<u>.70</u>
	13.025¢ U.S.

Converted to Canadian 97%	12.634
Freight	<u>1.121</u>
	<u>11.513¢</u>

Net on Canadian

Canadian price per pound	13.55¢
Less: Freight	<u>1.01</u>
	<u>12.54¢</u>

(1) Presumably means sales commission paid to International Minerals and Metals Corporation.

*

On this date the published price in Canada for Prime Western was 12.20.

Net Canadian on basis of 12.95 price (P.W. / 75¢)

Canadian price	12.95¢
Less: Freight	<u>1.01</u>
	<u>11.94¢</u>

To break even with U.S. sales we could still grant Zinc Oxide Company the difference between 11.94¢ and 11.513¢ which equals .427¢.¹

(Serial # 714)

NOTE: The difference in the Canadian price of 13.55¢ per lb. and the United States price of 13.85¢ is accounted for by the rate of exchange between the Canadian and United States dollars current at that time. It should be noted that after October 21, 1953, when setting the Canadian price of Prime Western at the United States price, no adjustment was made for the rate of exchange between the Canadian and United States dollars.

(ii) From a memorandum dated November 9, 1954: *

'Special Higrade Zinc Sales
(net F.O.B. Flin Flon)

* On this date the published price in Canada for Prime Western was 11.50 and the prevailing differentials gave a price of 12.85 for High Grade and 13.00 for Special High Grade.

<u>U.K.</u> -	<u>Present Contract</u>	<u>L.M.E. Basis</u> ⁽¹⁾	
	13.00¢ U.S.	£84/10 @ \$2.80 =	10.56
less	<u>2.70</u> (deduction- freight, etc.)	Freight, etc.	<u>1.50</u>
	10.30¢ U.S. or 9.99¢	Net Flin Flon	9.06
	Can.		Can.
<u>U.S.A.</u>	13.00¢ (E & MJ) ⁽²⁾		
less -	1.2	avge. freight	
"	.7	duty	
"	<u>.125</u>	commission	
	10.975¢ U.S. or 10.645¢	Can.	
<u>Canada</u>	13.00¢	Can.	
less -	<u>.98</u>	avge. freight	
	12.02¢	Can.	

...'

(Serial #761)

- (1) Presumably means 'London Metal Exchange'.
- (2) Presumably means 'Engineering and Mining Journal'.

The following evidence was given to the Commission by Mr. Buchanan (Hudson Bay) in regard to the return to Hudson Bay from sales of refined zinc in Canada and in export markets:

"BY THE CHAIRMAN:

Q. The English price today is below the Canadian price?

A. Yes.

BY MR. HUNTER:

Q. As it was in 1955?

A. That is right.

BY THE CHAIRMAN:

Q. Is that a normal situation? Is it usually that way, or does it vary from time to time?

A. With the exception of the years of the Korean crisis the United Kingdom price is always substantially lower than the Canadian price.

Q. With regard to the American price. In view of the statement you have made that the price here is above the American price, at least so far as Prime Western is concerned, is it your normal experience, having that in mind and having in mind that there is some duty on Canadian zinc entering the United States that the price you obtain, the net price you obtain in the United States is lower than you receive in Canada? You say it varies from time to time and I was just wondering --

A. Our general return is greater in Canada."

(Hearing, pp. 236-7)

From time to time the Canadian producers of refined zinc have given export rebates or arranged special prices to assist their Canadian customers to secure export business for zinc products. No clear-cut pattern has been shown for the granting of such concessions, and on occasion the rebate or special price appears to have been arranged for a specific export order. Normally, of course, one would expect that such assistance would more likely be given when exporters in other countries were in a more favourable position, because of the world price of zinc, to obtain export sales than were Canadian processors. Some examples of export rebates granted by Hudson Bay to ZOCO will be given when the relations between the two companies are reviewed later in this report.

CHAPTER III

THE ZINC OXIDE INDUSTRY IN CANADA UP TO 1954

1. Zinc Oxide Company of Canada Limited

As already indicated, ZOCO was incorporated on December 17, 1932, under the laws of the Province of Quebec. Although a very small producer of zinc oxide may have been operating in Toronto in that year, ZOCO was the first company in Canada to specialize in the production of zinc oxide on a substantial scale. Previously all zinc oxide used in Canada was imported, principally from the United Kingdom.

ZOCO began production in rented premises in 1933 with a capacity of 8,000 to 10,000 tons annually. Its head office and plant at 6894 Notre Dame Street East, Montreal have been maintained in rented premises, although in 1947, ZOCO purchased a factory site when it appeared that it would be unable to secure an extension of its lease beyond 1960. Since acquiring Durham Industries the factory site has been sold.

During the Second World War ZOCO was requested by the Canadian Government to increase the capacity of its plant from 10,000 tons to 20,000 tons, so that following the war ZOCO had a plant with a capacity about double the usual domestic demand. In one year during the war ZOCO's production exceeded 18,000 tons (Hearing, p. 73).

ZOCO has no affiliates outside Canada. The following description of its capital structure and officers is given in the Statement of Evidence:

"30. Capitalization of ZOCO includes authorization to issue both common and preferred shares. Prior to 1951 authorization was to issue 1,200 common shares only with a par value of \$100. Preferred shares with a par value of \$10.00 were authorized in 1951 to the number of 100,000 shares. This authorization facilitated capital payments to shareholders from capitalized, tax-paid, undistributed profits. No dividends are paid on these shares which are

preferred only as to assets. They have been used for payment of stock dividends to the common shareholders and are redeemable. At the end of 1955, out of 56,280 shares distributed (60 per issued common share) 25,573 had been redeemed. In September 1955 holders of 5 per cent or more of the 938 common shares of ZOCO issued and outstanding were:

Cantera Investment Inc.	100 shares
Henri Dolisie	76 shares
Jacques Fichet	93 shares
Jacques Fichet, in trust for Marcel Cornillat	76 shares
International Technique	57 shares
F. Eugene Therrien	<u>69 shares</u>

471 shares

or 50.21 per cent

31. The officers of ZOCO in April 1956 were:

President	Jacques Fichet
Vice-President	Francois Faure
Secretary-Treasurer	Lucien Roux
Directors	Henri Dolisie, Fernand Levasseur, Marcel Cornillat, George Carrette, Eugene Therrien, Roger Boulogne"

Except for Watts Chemical Company, a very small producer of zinc oxide in Ontario, ZOCO remained as the sole Canadian producer of zinc oxide from 1933 to 1947.

As already indicated, the process of zinc oxide manufacture used by ZOCO requires high purity zinc in order to produce oxide free from other substances. For this reason High Grade zinc is used principally but minor quantities of the less pure Prime Western zinc are used to make certain grades of zinc oxide. A description of ZOCO brands of zinc oxide given in the Statement of Evidence is included in Schedule 1, Appendix A.

2. Financial History of ZOCO

Although production and sales of ZOCO have shown wide variations in the post-war period, reflecting shifts in export orders and domestic demand, the operations of the company on the whole have been very profitable. The use of rented premises has meant that the value of fixed assets has been relatively low. As will be seen from Table 18, Appendix B, undepreciated capital cost of fixed assets rose from \$49,868 in 1945 to \$109,659 in 1955, while the depreciated values were \$10,982 and \$20,559 respectively. The following figures on volume of business, income and surplus are taken from tables given in the Statement of Evidence. More detailed statistics appear in Appendix B.

Table V

Financial Statistics for Zinc Oxide Company of Canada Limited

<u>Year</u>	<u>Net Sales</u> \$	<u>Net Profit Before Taxes</u> \$	<u>Net Income After Taxes</u> \$	<u>Surplus</u> \$
1945	2, 015, 030	216, 986	24, 669	191, 977
1946	2, 605, 466	350, 716	148, 510	296, 380
1947	4, 052, 305	440, 324	214, 422	506, 723
1948	2, 450, 404	224, 450	141, 404	642, 499
1949	1, 112, 170	54, 784	34, 630	670, 450
1950	2, 062, 787	178, 286	105, 473	494, 523
1951	2, 584, 004	215, 536	106, 040	119, 243
1952	1, 692, 370	69, 813	33, 461	53, 277
1953	1, 392, 725	189, 760	105, 940	152, 633
1954	1, 390, 614	164, 732	92, 766	146, 487
1955	1, 517, 551	75, 077	46, 682	187, 541
1956	1, 896, 286	136, 916	80, 698	429, 284

Source: Based on financial statements of ZOCO and information supplied by the company.

3. Durham Industries (Canada) Limited

When Durham Industries was incorporated as a Dominion Company under the Companies Act in 1947 as Durham Chemicals (Canada) Limited, one-quarter of the financing was provided by Harrisons and Crosfield Limited, England, whose Canadian subsidiary, Harrisons and Crosfield (Canada) Limited was to act as sales agent for the new undertaking. In 1948 the share interest of Harrisons and Crosfield Limited in Durham Chemicals (Canada) Limited was purchased by the latter's parent company, Durham Chemicals Limited, Birtley, England, and in the following year the name of the Canadian subsidiary was changed to Durham Industries (Canada) Limited. At the time of these changes The Pigment and Chemical Company Limited, Montreal, became sales agents for Durham Industries in all provinces except Ontario. In the latter province Delacour-Gorrie Limited represented the company. These sales arrangements apparently continued until 1951 when Durham Industries set up its own sales staff and established a sales and administrative office apart from its plant.

The first plant of Durham Industries was located at Cap-de-la-Madeleine, P.Q., but in 1949 operations were transferred to Montreal when the plant site and engineering business of Keating Forging and Foundry Limited were acquired. In addition to manufacturing zinc oxide, Durham Industries, for a time, also produced engineering equipment and operated engineering and sales departments which acted as agents for other manufacturers. In March, 1952 the engineering manufacturing section was sold at a loss to Hayes-Durham Forgings Limited. The administration of the company was reorganized in January, 1955, when the sales and administrative office was closed, and all operations were conducted from the Montreal plant. About this time Dillons Chemical Company Limited, Montreal became sales agents.

Operations of Durham Industries were generally unprofitable, as losses were encountered in all but a few years following the establishment of the company. According to the evidence of Mr. Therrien, based on a review of the company's history after its acquisition by ZOCO, administrative overhead and factory staff were too large in relation to the scale of operations of Durham Industries and contributed to unprofitable operations. Late in 1953 the decision was taken by Durham Chemicals Limited, England to try to dispose of its Canadian subsidiary. Various steps were taken in this direction and late in 1954 Mr. A.P. Waechter of

Canada Cold Storage Company Limited and Sharon Investment Corporation appears to have held a six months option on shares of Durham Industries. In June, 1955, as will be described more fully later, Mr. Waechter completed negotiations for the sale of Durham Industries to ZOCO.

In view of the fact that Durham Industries engaged in other activities in addition to the manufacture of zinc oxide, it is not possible to separate in each year the financial returns from zinc oxide operations. The following table presents some financial statistics for Durham Industries extracted from annual statements submitted in the inquiry:

Table VI

Financial Statistics for
Durham Industries (Canada) Limited

<u>Year</u>	Total	Net Profit	<u>Deficit Account</u>
	<u>Net Sales</u>	<u>Before Taxes</u>	
	\$	\$	\$
1947	105,532	105,358 (L)	105,358
1948	606,632	139,645 (L)	245,002
1949	1,032,952 ⁽¹⁾	62,992 (L) ⁽¹⁾	173,814 ⁽²⁾
1950	2,334,652 ⁽³⁾	23,137 ⁽³⁾	186,139
1951	3,546,117 ⁽⁴⁾	86,253	107,920
1952	2,397,051 ⁽⁵⁾	79,777 (L)	186,322
1953	1,828,405	17,805	174,408
1954	1,592,674	3,743 (L)	178,152
1955	768,286	77,974 (L)	256,125
1956	651,606	16,088 (L)	272,213

Note: (L) indicates loss. No provision for depreciation of plant and equipment was made in the years 1949 to 1952 inclusive and in 1955 and 1956.

(1) In 1949, Chemical Division (zinc oxide) had sales of \$780,506 and a loss of \$19,593.

(2) After crediting \$134,180 from sale of fixed assets.

(3) In 1950, Chemical Division had sales of \$1,688,317 on which there was a gross profit of \$202,338 out of a total gross profit of \$224,235.

(4) In 1951, sales of zinc oxide were \$2,443,000.

(5) In 1952, sales of zinc oxide were \$1,110,000.

According to an analysis of the operations of Durham Industries made by the auditors (Serial 254), the following results were obtained in the Chemical Manufacturing (zinc oxide) Division alone:

1947	\$105,358 (L)
1948	139,645 (L)
1949	19,593 (L)
1950	98,911
1951	190,350
1952	9,523 (L)
1953	36,792
1954 to Nov.30	32,465

(L) indicates loss.

The authorized capital stock of Durham Industries is 30,000 shares of \$100.00 value, of which 5,000 shares were issued and fully paid as at December 31, 1947. No further shares are shown as having been issued. It will be seen from Table VI above that the investment as at December 31, 1954 was impaired by an accumulated deficit of \$178,152, which increased in the subsequent two years.

Durham Industries has two zinc oxide furnaces of the crucible type producing French process oxide. Until the acquisition by ZOCO, Durham Industries purchased principally Prime Western zinc metal from Cominco, although some High Grade was used to produce pharmaceutical grades of zinc oxide. Durham Industries has also made some use of secondary zinc metal, "hard" spelter from die cast or other scrap, to produce off-grade oxides. Durham Industries also possesses a Wetherill-Grate furnace with which it can produce American process oxides either from zinc ore or from secondary metal. A description of the different brands of zinc oxide produced by Durham Industries at the time of the inquiry is given in Schedule 2, Appendix A. In his evidence to the Commission Mr. Therrien stated that since the acquisition by ZOCO, Durham Industries has added some brands and has eliminated what he

termed "zinc slabs, cheap zinc" (Hearing, p. 142). Durham Industries now purchases zinc from Hudson Bay and uses principally High Grade.

4. Zinc Oxide Price Lists

Price lists are usually issued by zinc oxide producers whenever prices are altered, and the date is given on which the new prices are effective. Some price lists give the prices of only one or two brands while other lists, such as the price list of Durham Industries dated July 12, 1956, give prices for a wider range. Prices are quoted on two bases, (a) carloads and truckloads and (b) less than truckloads. In the 1956 price lists carload and truckload prices are shown as delivered prices for all points in Ontario and Quebec, as far west as Windsor and east to Quebec City. In the case of less than truckload shipments the prices are shown f.o.b. Montreal, Toronto, Hamilton, Kitchener, and Quebec City in the case of the Montreal producers. Since September 11, 1954 the differential between truckload and less than truckload shipments has been 1¢ per pound. Previously the customary differential had been 1/2¢ per pound.

5. Situation in Zinc Oxide Industry Following Entrance of Durham Industries

The market for zinc oxide in Canada at the time Durham Industries began production in mid-1947 was already in a static condition and was about to undergo some contraction. The opportunities for export sales were also diminishing, as will be seen from the data given in the tables in Appendix B for the domestic and export sales of the individual producers. Imports of zinc oxide which amounted to almost 17 per cent of the total Canadian market in 1947 were at a lower level in the years after 1947 but still held a significant position. Table VII shows the distribution of zinc oxide sales in Canada between domestic producers and imports, from 1945 to 1956.

Table VII

Domestic Sales and Imports
of Zinc Oxide, 1945-56

Year	Domestic Sales by Canadian Producers		Imports		Total	
	tons	\$'000(1)	tons	\$'000(2)	tons	\$'000
1945	9,030 ⁽³⁾	1,157	1,168	180	10,198	1,337
1946	9,120 ⁽³⁾	1,220	926	151	10,046	1,371
1947	10,912 ⁽³⁾	2,323	2,205	478	13,117	2,801
1948	9,148	2,335	1,732	397	10,880	2,732
1949	6,672	1,739	1,094	270	7,766	2,009
1950	10,399	3,117	1,107	299	11,506	3,416
1951	9,293	3,689	665	220	9,958	3,909
1952	7,213	2,504	727	226	7,940	2,730
1953	8,541	2,236	1,382	344	9,923	2,580
1954	8,238	1,925	1,035	262	9,273	2,187
1955	9,444	2,225	805	209	10,249	2,434
1956	10,554	2,849	629	175	11,183	3,024

(1) Value f.o.b. cars at factory

(2) Value: foreign market value or f.o.b. cars.

(3) Exclusive of sales by Watts Chemical Company for which data are not available

Sources: Statistics provided by the companies and Dominion Bureau of Statistics, Trade of Canada.

Production of zinc oxide by Durham Industries during the part of 1947 in which it operated totalled less than 1,000 tons, and its sales in the domestic market formed less than 4 per cent of the total, including imports. In 1948, production exceeded 2,000 tons, and in 1949 almost 3,000 tons were produced. Domestic sales of Durham Industries formed 23.1 per cent of the total market in 1948 and 37.2 per cent in 1949, as will be seen from Table 4, Appendix B. ZOCO's domestic sales declined in amount and proportion in both years, falling from 79.4 per cent in 1947 to 61.0 per cent in 1948 and to 48.7 per cent in 1949. ZOCO's export business also declined greatly in 1949, as will be seen from Table 5, Appendix B.

The Korean War boom which occurred in 1950 led to a sharp increase in both the domestic and export demand for zinc oxide. As will be seen from the above table, domestic sales in 1950 greatly exceeded the 1949 total. ZOCO also increased its export sales substantially in 1950 and while a decline occurred in 1951 its domestic sales increased in the latter year. Durham Industries also greatly increased its domestic sales in 1950, and, although there was a falling off in 1951, it secured substantial export business in the latter year so that its total production in 1951 was greater than in 1950, as will be seen from Table 7, Appendix B. Sales of Durham Industries formed 47.0 per cent of the domestic market in 1950 and 40.7 per cent in 1951. ZOCO's share rose from 43.4 per cent in 1950 to 52.6 per cent in 1951.

The price of zinc rose sharply following the outbreak of hostilities in Korea in June, 1950 and did not reach a peak for this period until October, 1951. The price of zinc oxide also rose sharply in consequence. The price of High Grade zinc was further affected by the change in differentials over the price of Prime Western zinc as was shown previously in Table IV. It will be noted that the differential, which was $3\frac{1}{4}\text{¢}$ per pound in 1948, increased to 1¢ in January, 1951 and to 1.35¢ in October, 1951.

The price of zinc declined sharply during 1952, and the price of zinc oxide followed a similar course. There was a marked decrease in both domestic and export sales of ZOCO and Durham Industries, with the latter experiencing the greater reduction (Tables 6 and 7, Appendix B). Production of the two Canadian zinc oxide producers declined from 12,802 tons in 1951 to 7,844 tons in 1952 (Table 3, Appendix B). ZOCO's share of the domestic market increased slightly from 52.6 per cent in 1951 to 52.9 per cent in 1952, while the share of Durham Industries declined

from 40.7 per cent to 37.9 per cent. As will be seen from Table VII above, imports of zinc oxide increased by only 62 tons in 1952 compared with 1951, but because the total market had declined the proportion represented by imports increased from 6.7 per cent to 9.2 per cent (Table 4, Appendix B).

In February, 1952 Hudson Bay agreed to sell Electrolytic zinc to ZOCO at the quoted price of Prime Western plus 3/4¢ per pound. Previously Hudson Bay had been selling Electrolytic zinc to ZOCO at the prevailing price for High Grade zinc. When giving evidence at Winnipeg, Mr. C.O. Buchanan gave the following explanation of the decision by Hudson Bay to supply zinc to ZOCO on this price basis:

- "Q. What was your purpose in giving Zinc Oxide Company a price based on Prime Western plus three-quarters of a cent then?
- A. Well, we were faced with the possibility that if we said they would have to pay the full price for high grade zinc they would be either forced out of business where there are offerings of foreign metal around the world, and we would have lost a market for five thousand or six thousand tons of zinc. And we thought that these market conditions are only temporary. So maybe if we weathered the storm for a while these things would right themselves in due course.
- Q. What was your position with respect to the supply of zinc at that time?
- A. Actually at that time zinc was scarce and we could have very easily converted metal into higher grade and let Zinc Oxide go by the board, but we regarded them as a healthy outlet and we felt obliged to keep them competitive during these adverse conditions that they were meeting."

(Evidence, pp. 31-2)

From the Director's examination of the records of Hudson Bay it appears that sales to ZOCO averaged over 4,460 tons annually for the period 1948-55. In 1947, which was ZOCO's year of highest production, its purchases of zinc totalled 15,240 tons.

In his evidence to the Commission, which included a prepared statement, Mr. Buchanan testified as follows in regard to the price concession given to ZOCO in 1952:

"A. (Reads):

'(4) In 1952 the foreign zinc oxide companies had recovered sufficiently from conditions brought on by the war to compete in the Canadian zinc oxide market.

(5) To meet this specific import competition in 1952, Hudson Bay agreed to sell ZOCO electrolytic zinc at quoted Prime Western price, plus three-quarters of a cent. Zinc shipped under this new price arrangement was to be invoiced as Hudson Bay "oxide grade" zinc. The Hudson Bay oxide grade zinc was to be supplied from the electrolytic stock and the transaction was to be kept confidential to avoid disturbing the general marketing by Hudson Bay of electrolytic brand zinc in so far as its other customers were concerned. Namely, die casters, battery makers and brass makers.'

Q. When you refer to other customers, that is other Canadian customers than the classes you referred to earlier?

A. Yes. They did not have the problems of ZOCO.

'It was hoped by Hudson Bay that the price concession to ZOCO would help to maintain its Canadian market during the unfavourable market conditions.

Statistics show that the contemplated imports of low price zinc oxide did not materialize in the first half of 1952 but did assume a greater importance in the latter half, and a definite factor in 1953.

(Hearing, pp. 156-7)

It will be recalled that the price differential of High Grade zinc over Prime Western zinc had been increased by .35¢ in October, 1951 (Table IV) so that at the time the price concession was made ZOCO's cost of High Grade (Electrolytic) zinc was 1.35¢ per pound higher than the cost of Prime Western zinc which was used principally by Durham Industries. Of course, ZOCO was able to produce a practically lead-free zinc oxide from the relatively pure High Grade zinc and it apparently had a better rate of conversion of zinc to zinc oxide. This was explained by Mr. Therrien as follows:

"Q. In the Statement of Evidence there is reference to the yield obtained by your company ZOCO and Durham and Felling. I think that would be useful if you would explain that. I believe it was stated that your company got a yield from a given quantity of zinc of 124. Would you explain that?

A. I do not think we have went to 124, which is the top maximum you can attain, but ZOCO has attained regularly 123, which means that sometimes we have 123 decimal.

Q. And the other companies, I think Durham was given as 124, ⁽¹⁾ and Felling as 117?

A. That was what was given.

...

Q. Does that mean that when you take 100 pounds of zinc and process it you get, in the case of ZOCO, 123 pounds and point something of zinc oxide?

A. That is correct.

Q. The increase in the weight comes from the oxidization?

A. It comes from the weight of the oxygen. That is what I am being told by the chemist.

(1) The yield for Durham given in the Statement is 120. See Schedule 4, Appendix A to this report.

Q. And you are telling us that ZOCO has operated as close as may be to the ideal of 124?

A. That is correct.

Q. Do I understand that it is a chemical fact of life that you cannot get more than that, even on a theoretical basis, more than 124 pounds of zinc oxide from 100 pounds of zinc?

A. I understand that zinc won't take more than 24 decimal per cent of oxide."

(Hearing, pp. 41-2)

The figures in the Statement of Evidence referred to in the above extract from the evidence will be found in Schedule 4, Appendix A.

The price concession to ZOCO made by Hudson Bay in February, 1952 amounted to a reduction of .6¢ from the prevailing price of High Grade zinc, which the Director calculated increased ZOCO's margin over metal cost by almost 17 per cent and, on the basis of purchases of 3,000 tons of zinc in 1952, represented \$36,000 or an amount equal to more than half of ZOCO's net profit before taxes for that year.

As indicated by the evidence of Mr. Buchanan quoted above, the price concession made by Hudson Bay to ZOCO was to be kept confidential. At this time Durham Industries was obtaining Prime Western zinc from Cominco and no offer was made by Hudson Bay to Durham Industries to supply zinc on the same terms as were given to ZOCO.

In connection with the price concession given to ZOCO in 1952 Hudson Bay adopted the policy of invoicing the shipments as "Oxide Grade Zinc". Mr. Buchanan gave the following explanation of this policy:

"A. . . .

Previous price concessions given by Hudson Bay were handled through a rebate system whereby a credit invoice was issued against zinc purchased.

The price concession of 1952 to ZOCO could have been handled on a similar credit invoice basis but it was difficult to establish a workable formula; therefore, Hudson Bay elected to invoice their shipments of electrolytic zinc to ZOCO as Oxide Grade Zinc. This method of invoicing appeared to be the most logical as the metal delivered direct to the plant was to be burned to zinc oxide. It must be borne in mind that Hudson Bay at this time was set up to cast only two brands, namely, Electrolytic and Four Nines Plus.

. . . ' "

(Hearing, p. 162)

Toward the end of 1952 ZOCO was faced with strong competition in British Columbia from imported British zinc oxide which could be landed duty free by ocean freight at Vancouver. In a letter of December 4, 1952 to Hudson Bay the Sales Manager of ZOCO pointed out that the ocean freight to Vancouver was 68.7¢ per hundred compared with the best rate from Montreal of \$1.10 per hundred pounds by water and \$2.16 by rail. He reported that the British zinc oxide was being offered in Vancouver at \$16.00 per hundred pounds while ZOCO's Blue Seal brand was priced at \$15.20 per hundred pounds delivered in Ontario and Quebec (Exhibit H-5).

Hudson Bay decided to assist ZOCO to maintain its position in the Vancouver market by classifying shipments to that market as export business and giving ZOCO a further price concession on zinc used to fill orders from Vancouver. The following explanation for the price concession was given in evidence by Mr. Buchanan:

"A. . . .

'These low price imports from the U.K. threatened ZOCO's Vancouver business in December 1952 and ZOCO requested a price concession to meet this competition. Hudson Bay agreed to treat this market as export business and offered ZOCO zinc at Prime Western price, plus a rebate, to offset the high freight rate on zinc oxide from Montreal to Vancouver. ' "

(Hearing, p. 157)

The price of Prime Western zinc at this time was 1.35¢ per pound below the price of High Grade zinc (Table IV).

6. Canadian Zinc Oxide Market in 1953

The demand for zinc oxide in 1953 recovered from the slump in 1952 and total requirements, as shown by domestic sales and imports, were almost as large as in 1951 (Table VII). Imports, however, increased substantially so that the share of the market supplied by Canadian producers was only 86.1 per cent compared with 93.3 per cent in 1951 (Table 4, Appendix B). Imports from the United Kingdom, which had been less than 100 tons in 1951 and 1952, rose to 557 tons in 1953 (Table 9, Appendix B).

The increase in imports in 1953 was linked in the evidence of Mr. Buchanan to the re-opening of the London Metal Market early in 1953. Since trading was resumed on that market zinc has usually been quoted at prices lower than those prevailing in North America. This has meant that the cost of zinc to processors buying on the basis of the London market has been lower than the cost of zinc to Canadian processors. In addition, processors in the United States who use imported zinc to make products for export could secure a drawback of the U.S. import duty on such exports and thus take advantage of any lower-priced zinc available.

It has already been mentioned that in December, 1952 ZOCO secured a price concession on zinc from Hudson Bay to assist in meeting competition from British zinc oxide in the British Columbia market. At that time ZOCO also feared that there would be similar competition from British zinc oxide in Ontario and Quebec. Apparently indications of such competition became evident early in 1953 according to the following memorandum dated January 16, 1953, written by Mr. C.O. Buchanan:

"J. Fichet of the Zinc Oxide Company telephoned today to say that English zinc oxide is being offered in Toronto at 13.75¢ per pound, in competition with the Canadian product at 14.95¢. The current picture is as follows:

	British (Barking's)	Canadian (Zinc Oxide)
Metal cost	11.250	12.95 (P.W. / 75¢)
Oxide cost per pound based on fact 1# metal produces 1.2# oxide	9.375	10.792
Ocean freight	.49	-
Rail freight - Halifax to Toronto	.65	-
Rail freight - Montreal to Toronto	-	.60
Cost f.o.b. Toronto	10.515	11.392
Selling Price f.o.b. Toronto	13.750	14.950
Margin for profit, selling commission, warehousing and manufacturing costs	3.235	3.558

It should be noted that there is no duty on zinc oxide coming into Canada and also that the English oxide compares very favourably with the Canadian product as shown by the accompanying assay report.

Selling price Canadian oxide f.o.b. Toronto	14.95¢
Selling price English oxide f.o.b. Toronto	<u>13.75</u>
Difference in oxide prices	<u>1.20¢</u>

This difference translated to metal equals .96¢.

This would indicate that we would need to give the Zinc oxide Company at least the benefit of the P.W. price for zinc (12.20¢) to meet this competition.

. . ."

(Serials 713-4)

In a further memorandum, dated January 20, 1953, Mr. Buchanan recommended that Hudson Bay create a new brand of zinc to supply to ZOCO:

"In order that we can assist the Zinc Oxide Company pricewise to meet competition from abroad, it will be necessary to create a new brand of metal. In this manner we will not interfere with the price structure of existing grades of zinc and can set whatever price we choose on our own 'oxide' metal. This special oxide grade will carry no assay certificate and no guarantee of quality.

It is suggested that we order immediately a new set of moulds similar to our present ones except the word 'OXIDE' will be substituted for our present brand names. The number of moulds to be ordered should be left to the zinc plant to decide, depending upon how best they can handle the mechanics of the changeover. The Zinc Oxide Company will need approximately three hundred tons per month. This might be cast using a few 'oxide' moulds on the casting rack, casting about three bundles each shift or it might be a better idea, if stocks permit, to change moulds and cast up each months' requirements for the Zinc Oxide account at one time. These production matters can be mutually worked out later. However, no time should be lost in drafting up a new mould so that, once the number of moulds needed is decided upon, arrangements can be made for their purchase."

(Serial 716)

The decision to proceed in this way is indicated in a letter dated January 21, 1953 from Mr. Erich Weber, then Assistant Secretary-Treasurer of Hudson Bay, to the General Manager of the company:

"Since zinc trading has been resumed on the London Metal Exchange, the price of zinc in the U.K. ranges from 1 1/2¢ to 1 3/4¢ lower than what zinc sells for in Canada; the latter price being tied to the U.S. price. This situation permits the British zinc oxide makers to sell in Canada at a price which compels us to make a downward price adjustment to our Canadian zinc oxide customers. We cannot very well sell them regular brands

at a price lower than we do to our other zinc customers. In order to meet this situation we must create a new brand, 'Oxide'.

I had Mr. Buchanan write me a memo, copy of which I attach. I may also say that I acquainted Mr. Channing in the matter and he agrees that the only thing we can do is to cast a new brand as a solution to this situation.

Thanks and please let me know when (approximately) we can expect casting of this new brand can start."

(Serial 718)

It was decided, however, not to secure a new mould with the word "oxide" but to sell the zinc to ZOCO as "Special" and use some moulds bearing this word which the company had on hand. Mr. Weber gave the following evidence:

"Q. . . .

Was a new brand created?

A. I don't believe so. We had special moulds which we had made up quite some while prior to that for the reason that at times we cropped what we call our special high grade. However, at the time it was cast we didn't know whether it would be sold as high grade or special high grade, and therefore we put it into a special mould, and by means of a certificate of analysis we could sell it in either direction, as we wanted, that is, as special high grade or as ordinary high grade.

(Evidence, pp. 63-4)

Hudson Bay, which had been selling zinc to ZOCO on a confidential price basis and invoicing the shipments as "Oxide Grade Zinc", began, under the new arrangements, to cast the zinc for ZOCO in different moulds so that both the material and the invoices bore the name "Special".

Considerable evidence was adduced in the inquiry and at the Commission hearing relating to the question whether zinc supplied to ZOCO by Hudson Bay as "Special" brand zinc was distinguishable in its physical properties from Electrolytic zinc sold by Hudson Bay and previously supplied to ZOCO.

It will be noted from Mr. Buchanan's memorandum of January 20, quoted above, that the special Oxide Grade "will carry no assay certificate and no guarantee of quality". In his evidence at Winnipeg, Mr. Buchanan also said:

"A. . . . we did try to cast this metal and we did not supply any assay certificate to the Zinc Oxide Company. They had to take our word it was good enough for what they wanted it for."

(Evidence, p. 24)

The records produced in the inquiry showed that assay certificates were, in fact, furnished to ZOCO for some shipments of Special brand zinc. This circumstance made doubtful the significance of the absence of assay certificates. In his evidence to the Commission Mr. Buchanan explained that it is not the practice of Hudson Bay to furnish assay certificates regularly except for Special High Grade zinc Hudson Bay's Four Nines Plus brand. He said:

"A. . . .

We feel whether we did or did not give up assay certificates is of no consequence. We can definitely state that we do not give up assay certificates on any grade of zinc other than our F.N.P. zinc except for the following reasons:

- (1) When requested to do so by a customer.
- (2) Due to a clerical error in the despatch of the shipping papers."

(Hearing, p. 165)

According to this evidence there was no difference in terms of furnishing assay certificates between the sale of Electrolytic zinc and Special brand zinc. Mr. Buchanan explained that the delivery of assay certificates to ZOCO in certain instances arose from the fact that some invoice forms did not have perforations to permit the assay certificate to be readily detached and so the certificates were sent with the invoices in error. Later in his evidence Mr. Buchanan gave the following reason why Hudson Bay did not make a practice of providing assay certificates for other than Special High Grade zinc:

"A. . . The reason we made the rule is that we do not send certificates with our High Grade zinc because its purity is so great that people could conceivably use it in the die casting business."

(Hearing, p. 229)

As indicated in the evidence of Mr. Buchanan, Electrolytic zinc sold by Hudson Bay is of considerably higher purity than the A.S.T.M. standards described earlier in this report. These standards for Special High Grade and High Grade are as follows:

	<u>Lead</u> <u>Max. %</u>	<u>Iron</u> <u>Max. %</u>	<u>Cadmium</u> <u>Max. %</u>	<u>Aluminum</u>	<u>Sum of Lead, Iron, Cadmium, Max. %</u>
Special High Grade	0.006	0.005	0.004	None	0.010
High Grade	0.07	0.02	0.07	None	0.10

The average assay results in 1955 for the Hudson Bay brands, F.N.P. (Special High Grade), Electrolytic (High Grade) and Special (Oxide Grade) are given in Exhibit H-10 as follows:

	<u>Cadmium</u>	<u>Iron</u>	<u>Copper</u>	<u>Lead</u>	<u>Zinc by difference</u>
F.N.P.	.0004	.0002	.0015	.0015	99.9964
Elec.	.0004	.0010	.0020	.0065	99.9901
Special	.0005	.0008	.0018	.0080	99.9889

It will be noted that the sum of lead, iron and cadmium in the case of all three grades was less than the maximum allowed under A.S.T.M. standards for Special High Grade. These results reflect the great purity of Hudson Bay's High Grade zinc as described in Mr. Buchanan's evidence quoted above.

From the assay records of Hudson Bay the Director prepared a table showing the monthly weighted average assays of Electrolytic and Special brand zincs for 1953 to 1955 inclusive, and also annual averages. The latter are as follows:

	<u>Electrolytic</u> <u>(Zinc by difference)</u>	<u>Special</u>
1953	99.9909	99.9908
1954	99.9911	99.9909
1955	99.9901	99.9889 (5 mos.)

It will be seen that only minute differences in assay results appear in the figures for the two brands.

That on the basis of these assay figures there was virtually no difference between Electrolytic and Special brands was stated by Mr. Buchanan in his evidence to the Commission. He pointed out, however, that in casting Special brand zinc scrap elements were included, and these might introduce impurities other than the four elements shown above. The presence of other elements such as tin and antimony is checked by spectrographic analysis but the results of such examination are not shown in the assay certificates. Mr. Buchanan's evidence, in part, was as follows:

- "A. There was a distinction between Hudson Bay Special, which was cast in special moulds for ZOCO during the years 1953 and 1954 and a part of 1955, and Electrolytic. It is true that the purity of the zinc was only slightly less in the Special; however, the percentage of other contained metals was higher at times, due to plant operating conditions and introduction of impurities from scrap and discarded zinc impellers and pump runners.

In paragraph 210 on page 90 of the Statement of Evidence, an attempt has been made to prove that during the 26 months during which both Electrolytic and Special brands were cast, very little, if any, difference existed between the two zincs. The percentage purity figures used in comparison is one calculated by difference and only takes into account four impurities normally found in electrolytically produced zinc, namely, cadmium, copper, iron and lead. Granted on this basis, there is virtually no difference between the zincs.

However, the difference lies in the fact that impurities not normally present in our Electrolytic zinc were introduced in our Special brand at times because of the addition of impure zinc plant scrap. These impurities, such as tin and antimony, are kept below a deleterious level by spectrographic control and by limiting the amount of return scrap that could be melted each day. However, at the best of times contaminating a product is a risky business.

A case in point: during 1951 we supplied 350 tons of zinc to the Zinc Oxide Company on our Order 3414-D. The weight average zinc assay of the shipment was 99.9890 per cent, calculated on the basis of difference using the normal impurities, cadmium, copper, iron and lead. Zinc oxide produced from this metal turned out a dirty grey colour and was practically unusable.

In this case, we found some of the scrap zinc we had added had contained some babbit which raised the tin content from a non-detectable amount to a high of .007 per cent. What appeared to be an excellent zinc on a normal assay basis turned out to be unusable. To rectify our error, it was necessary for us to supply 150 tons of Four Nines Plus zinc to mix with the contaminated product so that the resultant mixture could be used. It should also be noted, the Four Nines zinc was supplied at the same price as the brand of zinc previously ordered and also assay reports were given up.

When casting of Special brand zinc was discontinued, we no longer disposed of our return zinc scrap by melting it in our melting casting furnaces, but elected to dissolve it in acid and re-plate it from solution. This eliminated any possible chance of contamination of our regular zinc brands.

. . ."

(Hearing, pp. 185-7)

The example which Mr. Buchanan gave of an occurrence in 1951 leads to the conclusion that the production of Special brand zinc did not differ materially from the production of zinc previously

supplied to ZOCO. It will be recalled that in 1951 ZOCO was being supplied with Electrolytic brand zinc and if an incident of the kind described by Mr. Buchanan occurred in that period it does not suggest that zinc of any lesser quality was supplied as Special brand zinc from 1953 to 1955. Mr. Buchanan also said in his evidence to the Commission:

"A. . . .

'There were occasions when it was impossible to meet ZOCO's requirements with "Hudson Bay Special", at which time a grade as good or better was substituted.

. . . ' "

(Hearing, p. 169)

The following reference to the quality of Special brand zinc appears in the evidence of Mr. E.S. Austin, Hudson Bay's Zinc Plant Superintendent:

"Q. You have also indicated that you attempted to produce a lower quality in the case of Hudson Bay Special. In doing so did you sometimes find that the quality you actually produced was sometimes above that of electrolytic zinc?

A. Yes, quite frequently. Sometimes the schedule given to us to meet demanded that we change moulds and casts immediately, and it is true on occasion Special was a few points higher than electrolytic."

(Evidence, p. 88)

It appears to the Commission that while effort was made by Hudson Bay to make a distinction between the Special brand of zinc supplied to ZOCO and the company's regular Electrolytic zinc, the quality of zinc supplied to ZOCO as Special brand did not differ significantly from the zinc supplied as Electrolytic brand zinc.

The price set by Hudson Bay for sales of Special brand zinc to ZOCO was the prevailing price of Prime Western zinc. This lower price applied on shipments of Special brand which began in February, 1953. Since January, 1952 ZOCO

had been purchasing its supplies of zinc from Hudson Bay at a price of Prime Western plus $3/4\text{¢}$ (a reduction of $.6\text{¢}$ from the price of High Grade zinc), so that the new price represented a further reduction of $3/4\text{¢}$ per pound, or a total reduction of 1.35¢ per pound below the price of High Grade zinc. Commenting on the price concession given to ZOCO in a letter dated December 2, 1954 to an official of Hudson Bay, Mr. Weber wrote:

" . . .

. . . I might add here that in order to help Zinc Oxide meet competition from England, Belgium and other countries, we are compelled to name special prices. On this business we ship our Special HB. While they may accuse they can't prove - also, our friends are doing likewise."

(Serial 763)

Mr. Weber was asked to explain this comment when he gave evidence and he testified as follows:

"Q. Why did you feel in the light of this decision to sell a special brand you would be free from an accusation that you were cutting prices? What effect would that have?

A. It has a sort of a--within the industry I am speaking--no industry likes what we call a price cutter. However, everybody has to meet certain situations, and you do it so you can't be openly accused of cutting prices on what might be termed in the industry as standard or regular established brands. For example, on special high grade it will have to call for a very special situation before we would cut a price, and there again if you cut a price you have to cut that price for everybody within that particular industry. If it is the brass people you are cutting prices it is for them; if it is the oxide people, it is for them; if it is for the die casters then you have to name it for all of them. In other words, our policy was never to do for one particular customer what we wouldn't do for another in that industry.

Q. Do you yourself regard this business of producing a special brand as cutting prices?

- A. I did not regard it as unethical, but it was a way of reducing prices to meet a certain situation, yes, because we were given leeway in the quality that we furnished."

(Evidence, pp. 70-1)

ZOCO also appears to have regarded the price concession given by Hudson Bay as something which should be kept confidential. Writing in French to one of the directors of the company on June 8, 1954, Mr. Fichet referred to the possibility of an increase in U.S. import duties on zinc and the difficulty which this might make for ZOCO to compete if the price of zinc in Canada increased as a consequence. He said that he would hope for assistance from Hudson Bay in such an event but he could not tell that to the customer "because H.B. is not supposed to grant us any concession on the official price" ("car H.B. N'est pas censé nous faire de concession sur le prix officiel") (Serial 52).

On March 4, 1953 ZOCO made a general reduction in the prices of its zinc oxide and at the same time placed the price of its Blue Seal brand, which had been previously selling at a premium of .25¢ per pound over the price of its Red Seal brand, on the same level as that of Red Seal (Schedule 7, Appendix A). Blue Seal was ZOCO's largest selling brand (Schedule 1, Appendix A), and the change in price basis meant that ZOCO's Blue Seal brand would be in direct price competition with Durham Industries' Red Seal and S.R.Q. brands, which had been selling at the same price as ZOCO's Red Seal brand. Durham Industries continued to list a White Seal and certain other brands at a premium of .25¢ per pound over the price of its Red Seal brand until some time after its acquisition by ZOCO (Schedule 2, Appendix A).

The price of zinc in Canada remained stable during the summer of 1953 but there was a downward trend beginning in September, 1953. Zinc Oxide prices also declined at this time. Durham Industries issued a price announcement effective September 14, 1953 listing its Red Seal brand at 12.60¢ per pound (the previous list price was 13.10¢, effective April 20, 1953, Schedule 5, Appendix A). ZOCO's list price of 12.60¢ was effective September 15, 1953.

7. Organization of Canadian Felling Zinc Oxide Limited

About the middle of 1951, as already described, Durham Industries set up its own sales organization and thus The Pigment and Chemical Company Limited, Montreal ceased to be its sales agents in the Province of Quebec. Prior to the Second World War Pigment and Chemical had been agents in Canada for The Felling Zinc Oxide Company Limited, and Mr. W.S. Dickson, President of Pigment and Chemical, now sought to interest Felling, England in establishing a zinc oxide plant in Canada. The negotiations led to Felling, England undertaking to supply the necessary capital for the construction of a zinc oxide factory in Canada. In August, 1953 the English company applied to The Bank of England for authority to transfer £45,000 to Canada for this purpose. Approval was given in October, 1953 and construction of a plant at Milton, Ontario was started in the same month.

The choice of Milton, which is about 30 miles west of Toronto, as the site for the Felling factory was apparently made because of the proximity of the town to the chief centres in Ontario for the manufacture of rubber products. As will be seen from Table I, more than 45 per cent of the zinc oxide used in Canada is consumed in the manufacture of rubber goods, and Ontario rubber factories produce about 80 per cent of the total output (Table 2, Appendix B). Ontario also has the largest proportion of the production of paints, which is the other principal purpose for which zinc oxide is used. As the Milton zinc oxide plant would be closer to the principal users in Ontario than the Montreal plants it was considered that the new plant at Milton would have an advantage in lower shipping costs to such consuming centres.

CHAPTER IV

DEVELOPMENTS IN CANADIAN ZINC OXIDE MARKET AFTER ENTRANCE OF CANADIAN FELLING ZINC OXIDE LIMITED

1. Canadian Felling Zinc Oxide Limited

While the construction of the factory at Milton, Ontario for Canadian Felling Zinc Oxide Limited was begun in October, 1953, the company was incorporated January 27, 1954 under the Companies Act. The authorized capital stock of the company consists of 1,500 shares of \$100.00 par value, of which 1,233 shares were issued and fully paid as at December 31, 1955. These shares were held by Felling Zinc Oxide Company Limited, Gateshead, England, whose proprietors are A. G. Turney Engineering Company Limited.

The factory of Canadian Felling at Milton was completed in March, 1954, although the plant was not fully equipped until August. Pilot-plant production of zinc oxide was conducted by Canadian Felling at the Milton plant in April, 1954 and more than fifty tons were produced in June. There was no output in August, but production was resumed in the fall. Mr. W. S. Dickson, President of The Pigment and Chemical Company Limited, who had interested the English Felling Company in setting up a Canadian factory, became the Managing Director of the Canadian subsidiary. When he died in December, 1954, his position as Managing Director was taken by Mr. R. W. Johnson, who is Vice-President of Canadian Felling and also of Pigment and Chemical. The latter company are exclusive sales agents for Canadian Felling and until January 1, 1956 provided clerical and accounting services for Canadian Felling. After that date the accounts and records of Canadian Felling were to be kept at the Milton plant.

Canadian Felling set out to produce the principal lines of zinc oxide used by Canadian industries. The different brands produced are described in Schedule 3, Appendix A. Zinc oxide is produced at the Milton plant by the French process. The plant is equipped with four crucibles, and Prime Western zinc is the chief raw material. Some secondary zinc, such as die cast and zinc trimmings, has also been used as raw material. For the production of high purity oxide some High Grade zinc is used.

During the summer of 1954 accounts of the establishment of a zinc oxide plant at Milton, Ontario appeared in various trade journals, and these came to the attention of officials of ZOCO. The

following item appeared in Chemistry in Canada, July, 1954:

"ZINC OXIDE. A new Canadian company, Canadian Felling Zinc Oxide Limited, is presently constructing a new plant at Milton, Ont., for the production of zinc oxide. Some \$150,000 has been invested in the new plant by the parent company Felling Zinc Oxide Company of Gateshead, England. The plant expects to employ about 20 in the beginning.

Up till now most of the zinc oxide used in the rubber, paint, ceramic and pharmaceutical industries in Canada has been imported. This new company is a subsidiary of A. G. Turney Engineering Company and its sales will be handled by Pigment and Chemical Company."

(Exhibit H-2)

In his evidence (pp. 69-71) Mr. Therrien stated that Mr. Fichet, President of ZOCO, became greatly incensed at the assertions in the trade reports about the new company that the Canadian market for zinc oxide had been supplied previously mainly by imports and at the absence of any recognition of the fact that the Canadian market was being supplied principally by the two plants in Montreal. Mr. Fichet's reaction at this time may have affected his attitude subsequently toward Canadian Felling. It is obvious, of course, that substantial users of zinc oxide in Canada would be fully aware of the capabilities of the suppliers of zinc oxide in Canada and would have a general idea of the position of each plant in the Canadian market.

2. The Canadian Zinc Oxide Industry in 1954

There was a decline in both domestic sales and imports of zinc oxide in Canada in 1954 compared with 1953 but as the latter dropped by 25 per cent and the former by only 3.5 per cent the share of the domestic market held by Canadian producers increased (Table VII). ZOCO's domestic sales declined only slightly, whereas domestic sales by Durham Industries fell to a greater extent, so that the proportion of the domestic market supplied by ZOCO in 1954 increased to 53.4 per cent while the proportion for Durham Industries dropped to 33.9 per cent (Table 4, Appendix B). Export sales by both producers were larger in 1954 than in 1953, with ZOCO showing the greater increase (Table 5, Appendix B). The result was that the total production of ZOCO increased in 1954 over 1953, while production of Durham Industries declined (Tables 6 and 7, Appendix B). The total output of the new plant of Canadian Felling amounted to only 253 tons in 1954, while sales totalled 141 tons (Table 8, Appendix B).

The price of Prime Western zinc in Canada increased by 1/4¢ in October, 1953 and then declined by 1/2¢ in January, 1954. There was an increase in price of 1/4¢ on March 11, and a further increase of 1/2¢ on March 29, 1954. No changes in list prices of zinc oxide were made until March 30, 1954 when prices of ZOCO and Durham Industries advanced to 12.95¢ (Schedule 7, Appendix A). Zinc advanced by a further 1/4¢ on May 26, 1954 and the list price of ZOCO was increased by 1/2¢ on June 2, making the price of Blue Seal and Red Seal brands 13.45¢. The announcement of a further 1/2¢ advance in zinc prices was made on June 3, and Durham Industries announced a price of 13.45¢, effective June 4. Following the change in June, no alterations in the list prices of zinc oxide were made until September, although the evidence indicates that prices actually charged were not the same as list prices in all cases.

3. Inquiries by Canadian Felling as to Supplies of
Hudson Bay Zinc

Before the plant of Canadian Felling at Milton was fully equipped, Mr. W. S. Dickson, Managing Director, made inquiries as to the conditions which would apply to the supply of zinc produced by Hudson Bay. Mr. Dickson first had an interview with Mr. Buchanan during a visit of the latter to Montreal, and this discussion was followed by a letter which Mr. Dickson wrote to Mr. Buchanan on March 19, 1954:

"You were kind enough to call on us at Montreal to discuss supply of Zinc for the new plant under construction at Milton, Ontario on behalf of Canadian Felling Zinc Oxide Ltd., and it was anticipated that you would about now be calling on our Toronto office because you, in the meantime, were coming East again. However, we have not had any word from Toronto that they have seen you, and we are able to advise that construction at Milton is practically complete.

It will of course, be some time before we are in commercial production, but expect that we will be making trial runs during the next three or four weeks and soon thereafter, should be in production (we hope). Consequently, we will soon have to be serious about raw material coverage.

With the foregoing in mind I would ask that you confirm the suggestions made in my office with regard to stocks at Milton, delivery time and placing of order to

arrival [sic] at Milton, premium over Prime Western and so on."

(Serial 1588)

Mr. Buchanan replied on March 23, 1954 as follows:

"Many thanks for your letter of March 19th. Unfortunately I was only in Toronto for one day last month and did not have an opportunity to get in touch with your office.

You will recall from our conversation that we produce only High Grade (Grade A) and Special High Grade Zinc. The High Grade quality would fit in with your needs for a high quality oxide and a typical analysis is as follows:

<u>Cd%</u>	<u>Fe%</u>	<u>Cu%</u>	<u>Pb%</u>	<u>Zn% by diff</u>
.004	.0013	.0018	.0063	99.9902

As for delivery, we have seven or eight day service to the Toronto area. While at times it is much better, it is wise to allow a safety factor.

With regard to stocks, could you give us an indication of what this will involve and also some idea of your probable production needs, now that you are near production. As for price the current zinc prices are 11.10¢/lb. for High Grade and 11.25¢/lb. for Special High Grade delivered. The minimum weight we can ship under our freight rates is twenty tons.

We will look forward to hearing from you further."

(Serial 1589)

On April 19, 1954 Mr. Dickson wrote to Mr. Buchanan informing him that Canadian Felling was starting off with the less costly Prime Western zinc:

"I had been holding your letter of March 23rd to discuss it with our Plant Manager, Glyn Roberts, at Milton.

I have just returned from there with advice that he ordered for preliminary purposes a carlot of Prime Western from Consolidated, because of the fact that it would not be good policy to use special High Grade until the equipment had been run in and any possible kinks overcome - since some of the stuff is likely to be wasted.

We have not all the necessary equipment in the plant as yet, and it looks as if that will not be delivered until late May or June.

Please rest assured that as soon as we are completely equipped so that we can afford to process Grade 'A' instead of Prime Western, or near Prime Western, redistilled zinc from General Smelting, we shall let you know concerning our further interest.

In the meantime we thank you for your willingness to co-operate."

(Serial 1594)

Mr. Buchanan answered this letter on April 22, 1954:

"Many thanks for your letter of April 19th. We can appreciate your using Prime Western Zinc during the tune up period of your new plant. As you point out there is considerable waste during these periods and there is nothing gained using a more expensive raw material.

When you are in the market for Grade A zinc we feel we can offer you a product second to none for quality. I hope to be in the East in June and I will check with you at that time regarding the progress of your operation."

(Serial 1596)

It will be recalled that for a year prior to February, 1953 Hudson Bay had been supplying High Grade zinc to ZOCO at a discount of .6¢ per pound from the prevailing price of High Grade zinc and that since February, 1953 Hudson Bay had been supplying ZOCO with a grade of Oxide zinc with an assay equivalent to that set out in Mr. Buchanan's letter of March 23, 1954, at the price of Prime Western zinc.

When asked about the discussions and correspondence with Mr. Dickson, Mr. Buchanan gave the following evidence:

- "A. I was in touch with Mr. Dickson during a visit to Montreal, when I found out a new oxide company was going to be established at Milton, Ontario. Mr. Dickson expressed the desire to meet me because he said our competitor had inferred that no one sold zinc in Canada but themselves, and he was quite elated to find out we were in the market. He came up to the hotel and met me, and we discussed the possibility of supplying zinc to him, and he brought forth the idea at that time that we would put zinc in his plant on a consigned basis. I was not at liberty or had not the authority to agree on that, and that was the situation he refers to.
- Q. Did you discuss with him the question of what price you would be prepared to supply him?
- A. We talked about grades.
- Q. What was the discussion in connection with grades?
- A. He said he hoped to be able to use high grade zinc. However, he thought they would be using Prime Western. Of course, we did not make Prime Western zinc so we never had any further dealings with him. He wrote me at a later date and said they were starting up the plant and they were using Prime Western zinc, and during the tune-up period he thought it would be better to use the cheapest material he could get. Following that I believe Mr. Dickson passed away, and that was our last contact with the company.
- Q. In the same connection would you look at documents 1588-1589, have you seen that before, Mr. Buchanan?
- A. Yes, I have seen this before.
- Q. Is that your signature at the bottom?
- A. Right.
- Q. The letter of March 19th is referred to in the first line. Is that 1588 that you have just considered?
- A. Yes.
- Q. The second paragraph of the letter 1589 says: 'You recall from our conversation that we produced only high grade--grade A--and special high grade zinc'.

At that time were you invoicing the Zinc Oxide Company with oxide grade zinc?

A. I would have to check my records.

Q. Did you discuss with him at all the question of supplying him with oxide grade zinc?

A. No, things had not reached that point where we were down to sharpening our pencils. This was all preliminary. "

(Evidence, pp. 38-40)

In his evidence to the Commission, Mr. Buchanan said that he had had no further communication with Canadian Felling.

The evidence indicates that purchases of Prime Western zinc from Cominco by Durham Industries and Canadian Felling, and in a small amount by ZOCO, were made at regular market prices at the time that ZOCO was purchasing higher quality zinc from Hudson Bay at the same price as Prime Western.

4. Increasing Price Competition in Canadian Zinc Oxide Market after Entrance of Canadian Felling

Although there was no change in list prices of zinc oxide in 1954 between the beginning of June and the first of September, officials of Durham Industries believed that from June on ZOCO was making some sales at less than list prices, which forced Durham Industries to do likewise. In a letter of June 8, 1954 to Mr. M. Cornillat, Mr. Fichet wrote that Mr. Dockrill of Durham Industries had accused the Sales Manager of ZOCO of cutting prices. In the same letter, Mr. Fichet expressed the opinion that Durham Industries was on the verge of bankruptcy but he had no idea of buying it (Serials 51-2).

Reference to drastic cutting of prices by ZOCO was made in a letter of August 27, 1954 from Durham Industries to Durham Chemicals, England:

" . . .

. . . The good prices which we have been obtaining on zinc oxide were not possible because of the entrance of the Felling Zinc Oxide people on the Canadian market, and our competitors, with whom we have always worked

very closely, became panicky and started drastically reducing their prices. We have, in many cases, been forced to meet these low prices and this has not and, will not, reflect too favourably.

However, to combat this type of competition, it has been necessary for us to put on the market a lower priced zinc oxide. This material is of reasonably good quality and is made from diecast. We have made several sales of this grade and its future looks quite promising. We do feel, however, that our competitors will, in time, begin to feel the small return on their sales and will then probably take a more sensible view of this price slashing. With our flexibility enabling us to produce zinc oxide of many grades, we may benefit in the long run, and be able to maintain satisfactory profits.

.. ."

(Serials 579-81)

In addition to the indications of more active competition between Canadian producers of zinc oxide during the summer of 1954, the offering of English zinc oxide at still lower prices became a further competitive factor in the Canadian market. These two factors were mentioned in the following memorandum dated September 1, 1954 from Mr. R. W. Johnson to Mr. W. S. Dickson, both of Pigment and Chemical:

"I had a visit this morning from my good friend Mr. Haviland of H & C with reference to English Zinc Oxide. He tells me that they can bring in Barking Oxide from England and sell today at 12 $\frac{1}{2}$ lb. His attitude is that he doesn't want to get into the Zinc Oxide business but he feels that he could create a bit of a nuisance for Durham if he at least made some offers. His point in calling was simply to advise us of this situation.

I believe that he is going to quote Firestone and that, of course, would upset Durham no end.

Incidentally, during our conversation, he mentioned that according to his Montreal Office, Durham publish a price of \$13.45 but that anybody down there can buy at \$12.95 if they press Durham. Have you heard about this?"

(Serial 1618)

The following reference to a price of \$12.95 (per cwt.) by Durham Industries is given in a memorandum dated September 15, 1954 to that company from Durham Chemicals, England:

".. ."

We can understand that with your present quoted price of \$12.95 you are finding the English material at \$12.20 very embarrassing.

.. ."

(Serial 583)

The striving for business in the summer of 1954 seems to have been principally between ZOCO and Durham Industries, as the small production of Canadian Felling had limited effect. This situation was reflected in the following memorandum of August 16, 1954 from ZOCO's Toronto sales representative to the Sales Manager:

"I have just had a chat with Bob Simpson [Toronto salesman for Durham Industries], and as he and I are very good friends, I would suggest that in the event that you are talking to Durham Montreal Office, that no disclosure be made of anything that is said between Bob and myself.

Bob got the last Firestone order for Pig. 10 and delivered two weeks ago, and he also got the Sept order. We have one as you know for the end of Aug. the price I do not know. He says he is getting tired of Firestone playing us one against the other and suggests that we both go in with a straight 12.50 quote and see what happens. He does not think Reg. Johnson [Canadian Felling] can get in there with his .1% lead material even with up to a quarter cut on the short freight cost.

Simpson tells me that as yet no Milton [Canadian Felling] material has gone into any major account of his, and his findings are exactly the same as mine, ie that Milton material has been approved at several places as a third source of supply but no one has yet taken any of it in Canada. They also have approval in the States in some cases. Courtaulds have approved Milton oxide but have not bought any yet. Gutta Percha the same.

Summing up the Milton situation, it would appear that unless they make a drastic reduction in price, they are not going to get into any of the major paint, rubber, or cosmetic houses. True they have about 35¢ to work with on Ontario freight hauls, but most of these chemists are pretty leery about making any change in source of supply of Zinc Oxide. They have to make long drawn out tests that will keep Milton waiting well on to a year or more. Meantime Milton must be operating in the red, and will for some considerable time. There is of course no knowing what the future holds but so far at least, Milton has not caused us the loss of any business that I know of, and that seems to be Bob Simpson's findings also."

(Serial 353)

"Pig. 10" referred to in the above letter was apparently a special grade of zinc oxide which conformed to specifications of The Firestone Tire and Rubber Company of Canada Limited. In a Canadian Felling memorandum of September 22, 1954 (Serial 1624) it is indicated that this grade of zinc oxide was customarily supplied to the rubber company at one cent less per pound than the price of standard grade. The suggested price of 12.50 would be, therefore, at approximately the one cent differential from the then current list price of 13.45.

The offering of English zinc oxide in Canada at prices lower than the current list prices of Canadian zinc oxide during the summer of 1954 was of concern to all three Canadian producers. The situation was attributed to the fact that prices of zinc on the London Metal Market were lower than market prices in Canada. The English producers could thus secure zinc to make into zinc oxide at a lower cost than Canadian producers. The cost of ocean freight from England, during the period of navigation, was such that delivery of zinc oxide to Toronto could be made at approximately the same cost as from Canadian factories in Montreal, and as English zinc oxide was duty free the laid-down cost would be below the Canadian price of zinc oxide, as is indicated in some of the correspondence already quoted. The Durham Chemical memorandum of September 15, 1954, quoted above, contained the following comment on the relative cost of zinc in England and Canada:

" . . .

It may be that you can obtain some concessions from your zinc suppliers in the form of a reduction in the zinc price to oxide manufacturers. On the present U. K. zinc market of say £81.0.0 per ton we can purchase Tadanac Prime Western zinc at £85.5.0 delivered our works, whereas at \$11.00 per 100 lbs you are paying the equivalent of approximately £90.0.0 per ton, and it is obviously in the producers' interests to maintain a steady domestic consumption for zinc oxide at a price which will discourage imports of foreign zinc oxides.

" . . . "

(Serial 583)

ZOCO reduced the list prices of its principal zinc oxides by .8¢ per pound on September 1, 1954, i. e. , from 13.45¢ to 12.65¢. Two days later, on September 3, the market price of zinc in Canada increased 1/2¢ per pound but list prices of zinc oxide did not change. The reduction in prices made by ZOCO was followed immediately by Durham Industries, but Canadian Felling did not announce lower prices until September 8.

The action of ZOCO in reducing prices of zinc oxide, which was followed almost immediately by an increase in the price of zinc, meant that the margin between cost of metal and price of zinc oxide was reduced considerably.

In view of the confidential nature of the arrangement between Hudson Bay and ZOCO for the supply of High Grade quality zinc at the price of Prime Western, ZOCO's competitors, Durham Industries and Canadian Felling, would have no information that ZOCO was securing high quality zinc at a cost less than the price of High Grade zinc.

This is indicated in a Canadian Felling letter of September 23, 1954 to the parent company in England:

" . . .

As to sales from Milton, we are only able to report that we have made a few small shipments to Gutta Percha, Dunlop, Ferro, and one or two others, but unfortunately when customers' vacation period was over we learned that Barking [England], as previously advised, had apparently offered Zinc Oxide through Harrisons & Crosfield, Canada, at greatly modified price, and consequently Zinc Oxide Co. of Canada and Durham knowing that we had come into production followed with strongly cut quotations. How long Zinc Oxide Co. of Canada can afford to do that, we do not know - because their production, unlike Barking, Durham (Canada), or Milton, is based on 'A' Grade, which in Canada is priced \$1.35 per 100 pounds more than Prime Western, so that Zinc Oxide Co. of Canada is now selling in trucklots at \$12.65 per 100 pounds and absorbing 60¢ per 100 pounds freight to Ontario - while their cost for Grade 'A' is \$12.85. . . .

. . . "

(Serials 1629-30)

In the period following the reduction in prices by ZOCO, officials of Durham Industries and Canadian Felling held discussions between themselves and with officials of ZOCO about what they regarded as the low level of prices, and successive unsuccessful efforts were made to see if ZOCO would not agree to an advance in the price of zinc oxide.

In addition to the approaches made to ZOCO to increase prices, both Durham Industries and Canadian Felling appear to have made efforts to find outlets for zinc oxide made from zinc scrap, which would provide a lower cost raw material than virgin zinc. Efforts in the two directions are indicated in the following extract from a Canadian Felling memorandum of October 1, 1954, written by Mr. W. S. Dickson to Mr. R. W. Johnson:

" . . .

As for Zinc Oxide prices, we had to let the matter rest until Bill Ritchie [ZOCO's Sales Manager] had straightened things out with Durham, and he only called last night to say that he had been trying to get in touch

with Dockrill, who had earlier called him saying that you had suggested to Simpson at Toronto that prices should be increased. Unfortunately, Ritchie told Dockrill he would talk to me, and having discussed the matter he called Dockrill back but could get nothing at all out of him, and when he tried to have the matter settled - he found that Durham just kept telling him Dockrill was away and would call him when he returned. In the meantime Ritchie learned that Durham had told all the customers that they would guarantee against price increase until the end of this year, so last night Ritchie said he would just leave things as they were without any increase - because St. Lawrence had just started to offer Frickers at only 5¢ per 100 pounds higher than Harrisons & Crosfield.

Under the circumstances, there is nothing for us to do but hope that we can, through the use of the zinc clippings and die cast, get some orders, make suitable material and sales, to at least pay the cost of keeping the plant at Milton open."

(Serial 1636)

Approaches by Durham Industries to ZOCO are described in a letter of October 25, 1954 from the former to Durham Chemicals, England:

Every effort however was made, by arranging a meeting with our competitors, the Zinc Oxide Company of Canada, to raise prices. We explained to them that the English competition which they feared, was not a serious factor and that could not be used as a valid reason for drastically cutting prices on Oxide. They reserved decision after our meeting and finally informed us that they would not under any consideration, increase the price, regardless of imported material or for any other reason. Apparently their main objective seems to be to keep Fellings out of production as long as possible, and also to keep us in line, although the previous agreement that the writer had with them was that we could regulate prices and get what the traffic would bear.

(Serials 587-8)

The efforts by Durham Industries and Canadian Felling to persuade ZOCO to make an upward adjustment in prices were continued after the close of navigation, and Canadian Felling added the argument that English zinc oxide could only be imported with the additional freight cost from the Atlantic seaboard. The situation was reviewed in a letter of December 14, 1954 from Canadian Felling to the parent company in England:

"Further to our letter of December 10th, Robert Dickson and I called on Mr. Wm. Ritchie, Sales Manager of the Zinc Oxide Co. of Canada, and Mr. Gordon Dockrill, Managing Director of Durham Industries (Canada) Limited.

As you are aware, the present depressed price situation in Canada on Zinc Oxide was due in the first instance to the rather impetuous action on the part of ZOCO, and we therefore approached these people first. As Mr. Dickson has pointed out many times, these people are very jealous of their position in the industry in Canada, and apparently are prepared to resort to all types of transactions to ensure that their position is retained. For some reason or other, Ritchie is still concerned with the risk of possible import of British Zinc Oxide, and though he realizes that with the additional freight from Eastern seaboard to inland points in Eastern Canada, the price of U.K. Oxide is higher than the Canadian, he is somewhat reluctant to make an upward adjustment in price. He claims that they are still making money, though he admits they are certainly not getting a fair return. There are so many factors involved which would incline Canadian consuming industries to buy in Canada that it seems ridiculous that someone like Ritchie would be afraid of imports from the U.K. Some of the points we brought up were as follows:

- 1) A buyer in Canada can phone us today and obtain delivery of a carlot or trucklot within a day or two, whereas on imported material - especially from the U.K., he must of necessity buy at least 30 days ahead. This is all right when Zinc is on the way up or is firm, but obviously no one would commit his company 30 days ahead when the market was weak, or actually falling.
- 2) There has been an increasing desire on the part of the large buyers to purchase 22000# truckloads rather than a 40000# rail car; the advantage, of course, is that a truckload can be unloaded at the convenience of the Receiving Department, whereas the railways insist that freight cars be unloaded within a stated period.

- 3) Canadian Felling Zinc Oxide Limited are here to stay, and with the market in Canada somewhat steady, obviously any business we get will be at the expense of ZOCO and Durham. Therefore as our tonnage increases, our costs are reduced - where theirs would increase.
- 4) We emphasized to Ritchie that our administration costs were negligible, in as much as these expenses were being borne by Pigment & Chemical Co. ZOCO's are of course high. There is another point and that is (while this was not mentioned to Ritchie) that Mr. Walter S. Dickson had decided that though we would continue to issue credit notes to The Pigment & Chemical Co. for commissions, Pigment & Chemical Co. would not take advantage of these credits until such time as Canadian Felling Zinc Oxide Limited was operating on a profitable basis.

We suggested an adjustment of 80¢ per cwt. upward, which would make the domestic price \$13.45 per cwt. delivered Montreal/Toronto in truckloads or carloads. Ritchie, who supposedly sets the sales policy of the Company, would not commit himself one way or the other, but rather promised to speak to their President about this matter, and we hope to hear from him in a day or two. Incidentally, he suggested that it is rather difficult to work with Durham and claimed that there was price-cutting going on, which of course we know about. You will be interested to know that a month or two ago we quoted Courtaulds (Canada) Limited a price of \$12.65 and were told that it was too high. We learned yesterday that Durham quoted \$11.95 and it was too high. That is simply an indication of some of the things going on.

As far as Durham are concerned, Mr. Dockrill is perfectly agreeable and is actually anxious to get the price up to a more reasonable and profitable level and agreed with every point we made. . . ."

(Serials 1247-9)

As mentioned earlier in this chapter, imports of zinc oxide in 1954 were lower than in 1953, and the decline took place in shipments from the United Kingdom, as shown in Table VIII. There appears to be very little difference in average unit value of imports of zinc oxide from the United Kingdom, as shown by the trade statistics, between the last four months of 1953 and the last half of 1954.

Table VIII

Imports of Zinc Oxide, by
Months, 1953 and 1954

1953	United Kingdom		United States		Total Imports	
	lb.	\$	lb.	\$	lb.	\$
Jan.	44,800	6,238	178,300	23,878	223,100	30,116
Feb.	10,084	1,455	50,295	7,601	60,379	9,056
Mar.	44,800	5,137	237,491	32,204	282,291	37,341
Apr.	-	-	139,340	18,394	139,340	18,394
May	58,321	7,024	179,550	23,650	237,871	30,674
June	67,200	7,746	126,910	17,492	194,110	25,238
July	-	-	152,204	19,942	152,204	19,942
Aug.	71,000	7,996	125,650	16,960	196,650	24,956
Sept.	74,800	7,997	255,300	34,946	330,100	42,943
Oct.	80,000	8,460	132,400	17,583	212,400	26,043
Nov.	620,000	65,673	70,900	8,949	690,900	74,622
Dec.	43,710	4,428	500	67	44,210	4,495
Total	1,114,715	122,154	1,648,840	221,666	2,763,555	343,820
1954						
Jan.	-	-	182,450	23,853	182,450	23,853
Feb.	50,000	4,938	114,755	14,828	164,755	19,766
Mar.	20,000	2,193	59,500	7,802	79,500	9,995
Apr.	52,800	9,594	15,632	4,214	68,432	13,808
May	6,000	647	130,030	17,165	136,030	17,812
June	10,000	1,179	196,530	25,927	206,530	27,106
July	52,400	5,327	22,217	29,369	274,617	34,696
Aug.	57,040	6,178	223,598	29,510	280,638	35,688
Sept.	22,400	2,460	161,000	20,752	183,400	23,212
Oct.	-	-	52,850	7,017	52,850	7,017
Nov.	60,000	7,340	95,600	12,846	155,600	20,186
Dec.	-	-	107,350	13,933	107,350	13,933
Totals	356,240	37,984	1,713,035	224,165	2,069,275	262,149

Source: Dominion Bureau of Statistics, Trade of Canada.

5. Hudson Bay Assists ZOCO to Make Further
Reduction in Zinc Oxide Prices

According to the evidence of Mr. Buchanan ZOCO approached Hudson Bay some time prior to January 4, 1955, stating that other Canadian producers were selling zinc oxide at prices which ZOCO could not meet unless Hudson Bay reduced the price of zinc supplied to ZOCO (Evidence pp. 37-8). It will be recalled that since February, 1953 Hudson Bay had been supplying ZOCO on a confidential basis with zinc comparable in quality to High Grade zinc at the price of Prime Western. The arrangement in January, 1955, which Mr. Buchanan stated was on a month-to-month basis, was set out, as follows, in a Hudson Bay office memorandum dated January 4, 1955:

"Zinc Oxide Co.

The following arrangement has been made for Zinc ordered during the month of Jan. & Feb. to meet competition

- (1) All zinc to be billed @ P.W. price with credit memorandum of 1¢ per pound.
- (2) Zinc for U.S. trade @ 11.00¢ during the above period."

(Serial 769)

The new price concession enabled ZOCO to secure zinc for its domestic business at a price one cent lower than the current price for Prime Western zinc, which was the price at which Durham Industries and Canadian Felling secured supplies of Prime Western zinc from Cominco.

ZOCO's first action was to reduce its list price for standard grades of zinc oxide to 12.35¢ per pound, effective January 1, 1955. This was followed by a further reduction to 11.50¢ on January 4, 1955. The explanation for the drastic reduction in price on January 4 was given, as follows, in a letter of January 5, 1955 from Mr. Fichet to Mr. Cornillat in France (the original text in French will be found in Appendix C):

" . . .

And now the war has begun with Durham and Felling's. About three weeks ago, young Dickson who is now president

of Pigment and Chemicals, the commission agents for Felling's, came with Red Johnson, their Toronto agent, to see me. Those two fellows wished to raise the price to 13.45, doubtless in order to be able to cut the ground from under us more easily; I told them that with the threat of competition from the English hanging over our heads we could not do it. Immediately after - but we have only just heard about it - these gentlemen offered oxide for 12.35 (twelve thirty five) instead of 12.65 which was the price they found too low. That was enough for me and with the help [of] our friends, I set the price at 11.50 with the understanding that at that price I was ready to take their orders for the whole of the first quarter. When that happened there was weeping and gnashing of teeth among our competitors, all the more because when making this offer to the trade we have made certain to tell them that the initiative was not ours, that we were only defending ourselves. Durham and Felling's are saying that they have withdrawn from the market; but they are also both liars. That does not impress me. We shall see in 2 or 3 months what they will have to say. At that price we are not losing money; after paying all our overhead costs we still have 34 cents left. That is not much; but it will tell you that we can hold out. And if we succeed in increasing our tonnage over 500 tons a month, the overhead cost per 100 lbs. will decrease. Let us wait and see what happens.

. . . "

(Translation, Serial 62)

The evidence in the inquiry does not indicate, for the period prior to January 1, 1955, sales of regular grades of zinc oxide at less than list prices on a substantial scale by either Canadian Felling or Durham Industries. There are more frequent reports of offerings of off-grade oxides at customary differentials below the prices of standard grades and the meeting of such competition by ZOCO, presumably, in some cases, through the offer of standard grades. Records of Canadian Felling show that one order was taken on November 26, 1954 for a shipment of standard grade oxide to the Dominion Rubber Company Limited at a delivered price of \$12.33 per hundred pounds when the list price was \$12.65. Canadian Felling, however, appears to have held the belief that ZOCO's action was due to the offering by Canadian Felling of an oxide made from scrap zinc some months previously as indicated in the following letter of January 5, 1955 to the parent company in England. After reporting the reduction in prices by ZOCO the previous day the letter went on:

" . . .

. . . We have since learned the facts leading up to it. Some months ago, as your Mr. Smith knows, Mr. Roberts at Milton came up with a fair grade of Zinc Oxide made from Die-Cast scrap, which met Firestone's specification for Pigment No. 10, a good part of which Pigment was being supplied by Durham Industries Canada Limited, who also made it from the same type of scrap and sold it at one cent per pound below the price for regular Oxide. In other words, our Oxide was developed out of necessity. In addition, we offered this oxide to only one other consumer, that was Port Hope Sanitary Manufacturing Company Limited. Zoco were informed by Port Hope and probably Firestone of our offers and evidently assumed that we had cut the price of regular Oxide, and without first inquiring of us as to what was going on, they cut the price yesterday, but first telling everybody that we had started a price war and that they Zoco, were prepared to fight as long as anyone.

We have, of course, explained the situation to Zoco who now find themselves in a position of having taken a large volume of business, all at a substantial loss, some of which has been booked for shipment as late as March 31st. They feel that, even though they now know the reason for the low price we quoted, they cannot justifiably withdraw, even though, in our opinion, they should not take any new business at this ridiculous price. In other words, they have acted impetuously as usual, and though they will probably ship most of the Oxide used during this quarter, the loss will be staggering. Of course, this will result in little, if any, business for Durham and ourselves, during the same period.

This is a very serious problem and our future policy must be decided on as soon as possible.

. . ."

(Serials 1261-2)

ZOCO's decision to reduce prices as of January 1, 1955 had apparently been made some time in December. Reporting to ZOCO's Sales Manager in a memorandum dated December 31, 1954, Mr. French, the company's Toronto sales representative, stated that he had indicated to customers the reason a reduction in price was being made (Serial 368). That ZOCO was prepared to reduce

prices even before January 1 is indicated in the following letter, dated January 10, 1955, from ZOCO to Courtaulds (Canada) Limited:

"We hope you will excuse our delay in confirming telephone conversation of the 3rd with reference to our price on Zinc Oxide.

The situation that developed just prior to the end of the year was most disturbing, particularly since we felt that the Oxide market had reached a point of stability that would continue for some time. With the reduction in price of other grades of Oxide by some competitors, we naturally supposed they had made a still more attractive price for your requirements. It was on the strength of this that we first telephoned you on December 30th that we would revise our price to \$11.80 per hundred pounds delivered Cornwall.

After the holiday weekend, our Company decided we would take similar steps to those taken by others, and to give the customer full benefit would cover their requirements for the first quarter of this year. Once this was decided the writer telephoned you offering a new price for these requirements or whatever part was as yet uncommitted.

To cover these requirements and subject to early acceptance, our price on Zinc Oxide to your specifications as previously supplied will be \$11.30 per hundred pounds F.O.B. Cornwall.

We hope by the end of March this ridiculous condition will have been corrected and that reasonable prices can be stabilized for Zinc Oxide.

We hope you will give this your early consideration so that we in turn can protect our position on today's metal prices."

(Serial 373)

This letter indicates that ZOCO quoted Courtaulds \$11.80 per hundred pounds on December 30, 1954 when the list price for standard grades was \$12.65, and on January 10, 1955 a quotation of \$11.30 was given when the list price for standard grades was \$11.30. It will also be noted from the Canadian Felling letter of December 14, 1954, quoted above, that an official of Canadian Felling reported to the parent company in England that a month or so prior to that date Canadian Felling had quoted Courtaulds a price of \$12.65 (the then current list price) and had been told that it was too high; also that he had learned that Durham Industries had met with the same response when

a price of \$11.95 was quoted.

The action of ZOCO in reducing prices to 11.50¢ on January 4, 1955 was a deliberate effort to set a price below any previous competitive level. That this was the policy is shown unmistakably by the minutes of a meeting of the Board of Directors of ZOCO held on April 22, 1955 which record that ZOCO considered it expedient to cut prices below ("couper les prix d'une façon plus forte") those offered by competitors (Serial 74). One purpose in reducing prices abruptly to a low level appears to have been to foreclose the market for zinc oxide as far as possible to competitors. In the case of Canadian Felling no change was made at this time in its list prices and, in effect, Canadian Felling withdrew from the market until April, 1955 as it accepted few orders at the lower prices quoted by its competitors. ZOCO was not certain whether Durham Industries would meet the new price and endeavoured to secure business from all known Durham accounts by offering the lower price on all orders for the first quarter of 1955. The various developments are described in a letter of January 12, 1955 from Mr. Ritchie, ZOCO's Sales Manager, to Mr. Buchanan:

"I had thought of calling this morning to bring you up to date on conditions existing in the Oxide market. However, there is not a great deal that can be done at the moment, except to recount our experiences.

In our telephone conversation Saturday, [presumably means January 8, 1955] between Jacques [Fichet] and I, we gave you a very up to date picture of conditions as reported to us. On these there has been no change. Unless Durham have been able to find a buyer for the Zinc Oxide plant which would ensure keeping the unit in tact [sic], that is, management, sales force and production, then by the end of this month the production and sales will be turned over to Dillons Chemical Company, who are solely owned subsidiary of Harrison Crossfield [sic]. This move will liberate the manager and sales staff from the organization since Dillons are equipped and this would mean excess staff.

From the time we had started offering the trade our new price for the first quarter, that is, \$11.50 per 100 pounds in carload quantities, there had been a feeling in my own mind that Durham might meet it. As a consequence, we moved as rapidly as we could particularly on accounts which we knew to be Durham or partly so. We did pick up some of this business but not enough to be satisfied. The excuse was that the customers wished to check their stocks and future requirements to the end of the first quarter. In a surprising number of cases, nothing further was heard, so a follow up was started and we now have it definitely re-

ported that Durham are meeting our price. In two instances in the Toronto area, Durham customers have placed orders for the first quarter at the \$11.50 price. One of these has told French frankly that Durham met our price and since they did not particularly wish to change suppliers, with comparable prices, there was no excuse to do so. No doubt, other of Durham's customers who are not so open, have done the same thing because in several of these instances, Nipp has received what he calls a brush off. . . .

. . .

This then, is how the fight is shaping up. It is possible it may be a final fling from Durham and its present management before it passes into other hands. However, it would appear natural the new administrator would at least be advised of conditions and their approval received before entering a price war such as this. On the other hand this may not have happened.

Should this competitor under new management consider making a proposition to us to supply their Oxide, which may be a possibility. If they can bring to the bargaining table orders for a decent tonnage, firm until the end of the first quarter it would improve our [their *] position. We do not have any idea whether this is in their mind and certainly we would not approach on this basis until Jacque's return from Europe. However, if there is a possibility for preliminary discussion initiated by them this might be interesting.

At the present moment it would appear the Oxide market is now pretty well covered by at least Durham and ourselves for the first quarter and not a great deal further can be anticipated until some one breaks the ice.

Pigment and Chemical with their Fellings Oxide appear to have withdrawn from the market and are not quoting to any one. They may have picked up some business at the first price reduction to \$12.35, but certainly this would not be for delivery beyond January. Personally, I feel they did not move fast enough at this price and the orders will be few and far between. They have

* Correction made in letter of January 13, 1955, Serial 773.

endeavoured wherever possible to throw the blame on us for disturbing the market, but in each instance I am satisfied we have convinced the customers to the contrary.

(Serials 770-2)

It will be noted from the foregoing letter that in deciding upon a drastic reduction in prices ZOCO sought not only to retain the business it had previously been doing but to take over, as far as possible, the trade which was being supplied by Durham Industries. To the extent this policy succeeded it would, of course, prevent any development of business by Canadian Felling. It will also be noted that Mr. Ritchie informed Mr. Buchanan that Canadian Felling appeared to have withdrawn from the market, and he expressed the opinion that the latter company would have been unlikely to have secured orders for delivery later than January, 1955.

6. Acquisition of Durham Industries by ZOCO

Mention has been made earlier of the decision reached before the end of 1955 by Durham Chemicals Limited, England, parent company of Durham Industries, to dispose of the latter company. The possible courses were presented in a memorandum written on March 16, 1954 by Mr. N. Dawson, then Chairman and Managing Director of Durham Chemicals Limited. The memorandum reviewed the unsuccessful operations with the first factory at Cap-de-la-Madeleine and the unprofitable business of the engineering works at the new location in Montreal until this division was sold in 1952. In regard to zinc oxide production at the Montreal plant Mr. Dawson wrote: "Experience in the manufacture and sale of zinc oxide has however been satisfactory and profitable."

The memorandum then went on:

"As a result of its experience in Canada over the last seven years Durham Chemicals is satisfied that there is a very promising future in the manufacture in Canada of the various zinc derivatives produced by Durham Chemicals at its factory in Birtley. The research and development work done by the latter and the manufacturing know-how which it has achieved can be made available to Canada and profitably exploited the cheap supplies of basic raw materials which are available.

The decision which Durham Chemicals now have to make is whether

- a) to continue as at present with increased capital and a strengthened organisation.
- b) to seek a Canadian partner and operate on a joint account basis
- c) to dispose entirely of their interests in Canada

Of these three alternatives (a) presents difficulties in respect of personnel and involves the problem of long distance control. Durham Chemicals have therefore decided to pursue courses (b) or (c), with preference on the whole to (c). They feel that if the outright sale of their business could be made to someone whose interests lay in a similar field, a profitable long term commercial agreement could be worked out between seller and buyer involving exchanges of information on manufacturing techniques, sales representation in certain defined fields, etc. to the mutual advantage of both parties.

. . . "

(Serials 558-9)

In April, 1954 Mr. Dawson resigned from Durham Chemicals and the company came under the control of Harrisons and Crosfield Limited, England, as already mentioned. About this time an approach was made to Cominco to see whether it would be interested in acquiring Durham Industries, but the former was not interested, as indicated in the following Cominco memorandum dated April 15, 1954:

"On April 12th Dockrill telephoned me to say that Dawson has resigned from Durham Industries and is no longer connected with them. Sir Leonard Paton of Harrisons & Crosfield is the new chairman at Durhams.

Following our meeting on April 14th I telephoned Dockrill and told him that at the present time his Company held no interest for us either as a direct purchase, indirect interest or in any other way. I told him that we might return to the subject at some future date, but in the meantime he is to consider the matter closed."

(Serial 2018)

No progress had been made by the end of 1954 in disposing of Durham Industries, although it had apparently been decided not to seek a buyer in the United States. In the letter of December 14, 1954 to Felling, England, quoted in part above, Mr. Johnson, Canadian Felling, reported a suggestion by Mr. Dockrill, Durham Industries, that Canadian Felling purchase his company:

" . . .

. . . Actually, Dockrill is very dubious about the future of his plant, and suggested four times that we purchase Durham Industries (Canada) Limited - and then scrap it. He believes the business could be had for \$200,000.00, but hastened to advise that the property could be sold for \$150,000.00. All in all, Durham are rather nervous about their own future, because nothing definite has been advised them by Harrisons & Crosfield, London. . . .

. . . "

(Serials 1247-9)

In January, 1955, negotiations began between Mr. A. P. Waechter, Vice-President of Canada Cold Storage Company Limited, Montreal and of Sharon Investment Corporation, and Mr. Fichet, President of ZOCO, for the purchase of Durham Industries by the latter. Mr. Waechter at that time held an option in the name of Sharon Investment Corporation to purchase the outstanding share capital of Durham Industries. The first offer of Durham Industries to ZOCO was made on January 8, 1955, according to information furnished by the latter to the Director. Negotiations between Mr. Waechter and Mr. Fichet were carried on by correspondence and interview during the early part of 1955 while both were in Europe, and continued when they returned to Canada. On January 23, 1955, Mr. Fichet wrote a long-hand letter to Mr. Ritchie which contained the following:

" . . .

Now, business: I think that your letter to Buck [Buchanan] was perfect, very much up to the point and giving him a clear and complete picture of the situation. Personally I am under the impression that Durham's situation is almost desperate and that if they met our price - and may-be below - it was in order to build up some tonnage so as to have something to bargain with. They want to sell and as far as I can see, there is only one possible buyer: ourselves.

At Naples I received a letter . . . [from a Mr. Waechter] and I found a copy of the same letter at Palermo. In this letter he is making definite proposals of amalgamation of the 2 companies. The terms are absolutely uninteresting although he specifies that I would remain the President until I retire and then become life time Chairman of the Board. That's the bait! He wants to discuss the question in Paris on Feb. 12 (he seems to be in a hurry) but I am not prepared to enter any negotiation without being authorized to do so by my Board. That will postpone until about April. In the meantime they will suffer; and many things may happen during these 2 months. I still believe that we have nothing to lose and everything to gain by the 'wait and see' . . . [word undecipherable].

Anyhow keep me posted. . . . "

(Serials 380-1)

The following extracts are taken from a letter dated February 8 and 9, 1955 from Mr. Ritchie to Mr. Fichet:

" . . .

Mr. Horseburgh [sic] has now been made General Manager of Durham Industries Canada Ltd. and also a Director. It is understood that immediately this became effective he instituted some cost savings in the manufacturing and handling of Zinc Oxide. As of the end of this month they will close the office on St. Catherine Street and Mr. Horseburgh will be located at the plant office on St. Patrick Street. Apart from this recital of developments it was apparent that Mr. Horseburgh was anxious to arrive at some satisfactory arrangement regarding prices of Zinc Oxide in Canada. Particularly to increase them to a reasonable level. However, he is very uncertain of the reaction of Fellings to such a proposition. It is his feeling that no matter what might be mutually and verbally arranged or agreed upon, there is considerable doubt whether they would follow it. With this uncertainty then it would appear almost impossible to bring any stability to the Zinc Oxide market in Canada so long as three firms remained in existence.

I was advised that Durham Canada are prepared to stay with us on prices and I mean the present low price \$11.50 carloads, for at least a year if in so doing the

third competitor can be convinced he has no place in this market. On the strength of this statement it is now certain Durham proposes to stay in the Canadian market and has been assured of support from the U.K. It might be to our advantage to work with them. On the other hand perhaps by some means we can buy them out or better still secure a controlling interest.

The fact remains that there is not sufficient Zinc Oxide business in Canada to permit three companies to operate profitably.

I understand that Durham now have two types of furnaces. One which is the Retort, from which can be produced normal French Processing using alb. [sic] The other is to produce American Process and in which they can use Zinc concentrate or residue or scrap. In addition Horseburgh claims he has already tied up all zinc scrap in Canada for the balance of the year. In this latter furnace it is possible to produce a Zinc Oxide which can sell at a profit at \$10.50 per 100 lbs. It is of a questionable quality and poor colour but on the other hand they find a market for it in the paint trade.

There are so many angles to this business that it is extremely difficult to cover it by correspondence. However, the foregoing will give you the highlights on developments up to the moment and I will keep you posted if anything new occurs.

I have discussed over this whole proposition with Mr. Therrien, and am trying at all times to keep him up to date on developments. He advised he was writing you and wondered whether he could include my information. In this instance I considered it better giving it to you directly. He may just mention his conversation with me and that I have brought him up to date.

...

This tonnage [presumably refers to ZOCO's February orders] is nothing to crow about but on the other hand the market seems now to be pretty well bought up. This condition is no doubt, the result of Durham promptly meeting our \$11.50. We know of instances as previously mentioned, where the customer after receiving our price immediately called Durham and the price was met and we did not secure the business. I know now that Durham are manufacturing and shipping Zinc Oxide but

I am no better off regarding the tonnage.

. . .

You ask what Buck had to say. It is the considered opinion at Winnipeg that they will help us to reasonable lengths but that we cannot expect this condition to last indefinitely. They expect us somehow to make some arrangement to stop this price war. This could be either by controlling one of the competitors, or forcing both to the wall, or arriving at some reasonable arrangement for stable prices. That was his opinion in a nutshell.

You may have an opportunity with this in mind to secure at least an expression from the Swiss people without tipping our own hand. It is quite obvious that the Durham setup over the past four years has not been profitable and there can be no doubt that they are anxious to dispose of it at the best possible figure.

. . ."

(Serials 387-90)

Replying to an earlier letter of Mr. Ritchie, Mr. Fichet wrote on February 9, 1955:

"I read with the usual interest your letter of the 3rd. Thank you very much for keeping me posted about what is going on at the ZOCO. I understand quite well Buck's position but he can rest assured that I don't want, any more than he does, to see this price war last for ever. But my feeling is that Durham's financial position is far from brilliant; therefore it is obviously in our interest to wait and see them coming. I did not answer . . . [Mr. A.P. Waechter's] proposals because they are simply ridiculous; merging both companies on the basis of the book value (when all our assets have been depreciated to the limit) splitting the common stock 50/50, the difference in the value of both the 2 companies being adjusted in pfd shares!! . . .

But since they are apparently very anxious to get rid of this company one way or the other, I am prepared to bet that Mr. Waechter will call me in Paris. In order to make a nice showing they did their utmost to book some tonnage, even maybe at a lower price than our [sic]; but they certainly lost money on it. So how long will they be able to hold the rope? Be sure and keep me posted

on the latest developments you may hear of.

. . . "

(Serials 391-2)

On February 18, 1955, Mr. Buchanan of Hudson Bay wrote to Mr. Fichet:

"As you know I had the pleasure of a luncheon with F. E. Therrien while in Montreal earlier this month. . . .

M. Therrien promised to give you the details of our discussion so I will not repeat our conversations. While I don't think it advisable to be hasty in the consideration of the Durham offer, I would suggest that you keep the proposal alive until you return.

It seems evident that there is a definite place in industry for an oxide other than your own. While ZOCO brand is of the highest purity, physical characteristics other than those possessed by your product appear necessary for certain customer formulations and for this reason the acquisition of Durham might be desirable.

So long as there are three Zinc Oxide producers in Canada any satisfactory price level will be difficult to maintain. Some how one producer must be taken over to narrow the field down to two producers.

Bill has been very good in keeping us advised of the new developments. One suggestion that came out of a discussion with Mr. Weber was that possibly if the control of Durham was not possible, would Fellings consider selling a controlling interest here in Canada, or arrange to have you take over their sales.

The fact that Durham is, or is not for sale makes it difficult to make any worthwhile comments at this time. Possibly when you have a meeting with the Swiss representative you can learn something definite regarding the intentions of Durham. In the meantime we have agreed to meet the Oxide competition in April where necessary.

. . . "

(Serials 63-4)

The following extracts are taken from a reply which Mr. Fichet made to Mr. Buchanan on February 22, 1955 in which he described his discussion with Mr. Waechter:

" . . .

. . . To put the thing in a nutshell, I told him, 'What you have to sell is a lemon, what I have to sell is a good, sound and prosperous business. Therefore, the merger 50/50 is simply ridiculous. Now, what is exactly your position in that deal?' He agreed that his proposal did not make sense except as an inducement for me to formulate a counter-proposal. Regarding his position: his group happens to be in very friendly terms with D. England, who are rather fed up with this Canadian business and willing to get rid of it, if possible, and to reorganize the Company. The English company has given the Swiss group an option to buy the Canadian company at very favourable terms. This option, good for 6 months, has still 2 months to go, but Mr. Wacher (?) who represents the Swiss group, considers that nothing can be done without us and that if it is impossible to come to some kind of a merger, he will not take advantage of his option. . . .

. . .

The conclusion of the meeting was that I would again consider the question in the light of the figures he gave me, consult my board (because I told him that I did not have the control of ZOCO) and get in touch with him again in Montreal towards the end of March.

My definite impression is that we are not in a bad position. I do not want any more than you do, to see this price war last forever (we lost \$6,600 in January), but if we could at the same time get rid of these 2 rascals, it would be very good business for both of us. I would very much appreciate having Mr. Weber's and your own reaction.

. . .

Now what would be our advantage to merge with Durham? None if Fellings is not included in the deal because Fellings has the same nuisance value as Durham and even more, on account of its more favourable location. In my candid opinion our aim should be to have these 2 fellows thoroughly disgusted, then propose a merger of the 3 companies at terms bad enough to discourage any other English company to establish a Canadian subsidiary. From what

we know it should not be too far away - Of course it is difficult for me to fix a date; but I think it would be too bad to have made this effort and give up without any result. As far as we are concerned I am prepared to sustain further losses if this can clarify the situation, i. e. eliminate the other competitors. It is quite possible that by the end of March, . . . [Mr. Waechter] will be softer???

. . . "

(Serials 410-3)

On March 2, 1955 Mr. Buchanan replied to Mr. Fichet's letter as follows:

"Many thanks for your letter of February 22nd. Your conversation with your Swiss (?) friend was very interesting and it certainly sheds a new light on the Durham situation.

Judging from the financial condition of Durham, as you have outlined, they are in no position to carry out a price war for a year or more as the Canadian management has intimated. I am in agreement with you that possibly they are trying a big bluff. However, I don't see why they would reveal their financial condition at this time when negotiations are of such a preliminary nature. It certainly jeopardizes any bargaining position they might have. In view of Durham's financial position the company appears headed for bankruptcy, and if so, you had best wait to pick up a bargain.

Certainly the ideal set-up would be if an amalgamation of the three Oxide producers could be made and then your only competition would be from imported material which you could meet and still make a profit. In the meantime, we are prepared to cover your metal requirements for April Oxide orders. Bill and I have discussed your letter and we feel that April orders for Oxide will be coming in before you arrive back in Montreal. If you are prepared to go along another month at the reduced price, I would suggest you cable Bill to that effect. Taking all the facts at hand your competition may be quite willing to meet your terms by the end of April.

. . . "

(Serial 421)

Mr. Ritchie also wrote to Mr. Fichet on March 2. The following paragraphs are quoted from his letter:

" . . .

I get the feeling that your letter does not give them any conclusion as to what you propose doing about the price war; of course, it does not say much in this respect, except the hope we can get them so thoroughly disgusted (the competitors) they will close up shop. Perhaps Durham will with their poor showing up to the present, but this does not include Fellings, who may be more stubborn.

Buck has now agreed that we can go out after April business on the present basis. However, before taking any actual steps to initiate April business, I want your okay, - not knowing what you may have in mind.

. . .

It has been suggested, also, by Buck that we advise Durham we are going to continue the present price. This idea may be all right, but I would prefer, if possible, to try and get some of the competitive [sic] accounts tied up first (such as Courtauld's, Goodrich, Dunlop, Firestone, etc.) because, if we both start out even, the purchasing agents may decide to give Durham the next order on an equal basis with ourselves price-wise; in other words, turn-about. This, of course, would improve Durham's position, but I feel, on the other hand, it would be crippling to Fellings.

It would be fine to wait until you return before these decisions are made, but, by that time, I feel considerable advantage which we now have would be lost. So, I would propose securing as much business as we can right now for April.

. . . "

(Serials 422-4)

On his return to Canada Mr. Fichet appears to have become more concerned about reaching a conclusion in the negotiations for the purchase of Durham Industries. He wrote on April 15, 1955 to Mr. Boutry in France as follows (in translation):

" . . .

Business. Nothing new to report. I did not go to Winnipeg because my friend Buchanan was not there: but I succeeded in persuading him by telephone to continue for the month of May [the zinc price concession]. He has to spend next week in Toronto and arrives in Montreal on the 23. We will then be able to discuss the 'coup' [scheme or deed] from all angles. From . . . [Mr. Waechter], nothing. He has phoned me already on Tuesday the 5th; he told me that in London he had seen Felling's (those who have the Milton plant), that they were disgusted and had decided to withdraw from the Canadian market; moreover, that they had no money [to spare] while Durham were associated with Harrison & Crossfield [sic] and that those [Company] could afford to lose a good deal [of money]. To which I answered that I did not doubt it, but I was nevertheless convinced that they did not like it. Actually I had told . . . [Mr. Waechter] that a merger of the 2 did not seem interesting if there still remained out of it a third robber with a 'nuisance value'. His game consists then in persuading me that Felling's is out of the running and that Durham can stick it out indefinitely. In regard to Felling's that could be true because our salesman in Toronto telephoned me yesterday that a real estate agent had come and shown Felling's plant to a prospective buyer: nevertheless, I will believe it when all the machinery will have been dismantled. As for the story of Harrison & Crossfield, I doubt it. It is certain they have money: but why would they go and put it in that sinking ship from which they have not received a cent up till now? To save Durham's investment? That would be a magnanimity of spirit uncommon among business men. Therefore I strongly doubt this whole story. But what bothers me more is that Waechter was to telephone me Tuesday to make an appointment and I have not heard a word from him. He seems much less anxious, and I cannot telephone him; I do not want to appear to be running after him.

ZOCO. As I told you in my last letter, the tonnage is being maintained but prices are low. Result: \$12,000 profit for the first three months. That is not bad! What consoles me is the thought that the others must be in greater distress than I.

. . . "

(Serials 71-3, the original text
in French appears in Appendix C)

The acquisition of Durham Industries was considered at a meeting of the Board of Directors of ZOCO held on April 22, 1955. The following is a translation of a portion of the minutes:

" . . .

The Chairman informed the Directors that certain competitors having cut the price of zinc oxide to customers, Zinc Oxide Company of Canada Limited had considered it expedient to cut prices further and one result of this had been that he had been approached by a Mr. A. P. Waechter, who is supposed to hold an option on the shares of Durham Industries (Canada) Limited, with a view to a merger of the two companies or the sale of all the issued shares of Durham Industries (Canada) Limited to Zinc Oxide Company of Canada Ltd.

After discussion on a motion duly proposed and seconded, it was unanimously resolved: That this company should not merge with Durham Industries (Canada) Limited, but authorized the Chairman to continue his negotiations with a view to the purchase of all the issued share capital of Durham Industries (Canada) Limited.

It was further resolved: that the Chairman be authorized to have an evaluation made of the fixed assets of Durham Industries (Canada) Ltd.

. . . "

(Serial 74, the original text in French appears in Appendix C)

In considering the purchase of Durham Industries, Mr. Fichet at first thought of trying to keep the acquisition secret so that customers of Durham Industries would have no reason to change to another supplier. Writing to Mr. Boutry in France on May 5, 1955 Mr. Fichet outlined some of the financial aspects of the acquisition. His letter included the following paragraph (in translation):

" . . .

D. [Durham] presently manufactures between 3,000 and 3,500 tons a year. If the other [producer] does not die, he will certainly inherit part of the tonnage, on the one hand because certain consumers make it a policy 'to split the business', and on the other hand, because we are French or French-Canadian and set up in the province of Quebec while

the others are English-Canadians established in Ontario and the parent company is in the United Kingdom. Now you know the mentality of Ontario, I will not go any further. But if we keep about half of it, say 1,500 or 2,000 tons, it would be a fine bit of business, because my overhead costs would not be increased by one cent and they would already be paid for by our present production. I estimate them now at \$1.25 per 100 lbs., say \$25.00 a ton. These 1,500 or 2,000 tons would yield \$37,000 or \$50,000 over normal profits, that would make the 'coup' [scheme, deed] worth the risk. But you can guess how much thought I have given and how much paper I have used to make these estimates before arriving at what I just outlined to you. If the others, those at Milton, could drop out of sight also, it would be still better since the extra profits would be \$75 or \$100,000.

. . . "

(Serials 76-7, the original text
in French appears in Appendix C)

At a meeting of the Board of Directors of ZOCO held on May 16, 1955, Mr. Fichet was authorized to make a formal offer of \$200,000 for all the issued shares of Durham Industries. The offer was made in a letter the following day to Mr. A. P. Waechter, as follows (in translation):

"Following our various meetings, I submitted to our Board of Directors the proposal that you made to me as well as the documents produced to support it. I am authorized to make you the following offer:

ZINC OXIDE COMPANY OF CANADA LIMITED is prepared to buy from you all the issued common shares, that is 5,000 (five thousand) common shares of DURHAM INDUSTRIES (CANADA) LIMITED at a total price of \$200,000, (two hundred thousand dollars), plus or minus the differences which there may be between the balance sheet as of the date of sale and that for December 31, 1954, which served as the basis for our calculations. Should this transaction be completed, it is understood that it will be kept secret and that you undertake not to reveal the identity of the real purchaser without our consent.

This offer is valid for one month from the present date, that is until June 17, 1955 inclusive.

. . . "

(Serial 92, the original text
in French appears in Appendix C)

When the offer made on May 17 was not accepted by Mr. Waechter it was increased to \$205,000 in a letter which Mr. Fichet sent to Mr. Waechter on June 1, 1955. The following is a translation:

"Further to my letter of May 17 and to our meeting of the 31st, I wish to inform you that our Board of Directors has authorized me to increase to \$205,000 (two hundred and five thousand dollars) the offer which was contained in my letter of May 17 for \$200,000 the other conditions remaining unchanged.

. . . "

(Serial 98, the original text
in French appears in Appendix C)

The revised offer was apparently accepted by Mr. Waechter on June 6, 1955 and the purchase was ratified at a meeting of the Board of Directors of ZOCO on June 16, 1955. The minutes of that date contain the following reference to the matter (in translation):

" . . .

The Chairman reported to the meeting that he concluded with Mr. Waechter an agreement for the purchase of all the issued share capital of Durham Industries (Canada) Ltd., for the sum of \$205,000, from which sum must be deducted the amount of the operational losses of Durham Industries (Canada) Ltd., from January 1, 1955 to June 6, 1955.

After discussion, on a motion duly proposed and seconded, it was unanimously resolved: To approve the purchase by this Company of all the issued share capital of Durham Industries (Canada) Ltd. for the sum of \$205,000, from which sum would be deducted the amount of the operational losses of Durham Industries (Canada) Ltd., from January 1, 1955, to June 6, 1955.

It was further resolved: that the shares of Durham Industries (Canada) Ltd. should be deposited with the Montreal Trust Co. and registered with the Montreal Trust Co. and that the directors and officers should be members of the staff of the Montreal Trust Co. "

(Serials 106-7, the original text in French appears in Appendix C)

Writing to Mr. Cornillat on July 11, 1955 Mr. Fichet referred to the acquisition of Durham Industries as follows (in translation):

" . . .

The Durham transaction is completed: that cost us \$175,422.96. I think it is an excellent deal. It is better not to talk about it because I should not like people like Dominion Rubber who have a policy to 'split the business' to split it now between us and Felling. Officially, then, it is Waechter who has purchased [it]. The title deed will be in the name of the Montreal Trust who will also provide us with such directors that neither the name of ZOCO nor that of Fichet, nor anyone more or less connected with ZOCO, will appear. . . .

. . . "

(Serial 113, the original text in French appears in Appendix C)

That Durham Industries had been sold to a Canadian purchaser was learned quickly by Canadian Felling. On June 8, 1955 Mr. Johnson wrote to Felling, England stating that he had heard that the purchasers of the plant of Durham Industries had no interest in zinc oxide (Serials 1397-8). By early July, however, Canadian Felling was informed by its parent company that ZOCO was the purchaser of Durham Industries (Serials 1408-9).

Durham Industries has continued to operate as a producer of zinc oxide since its purchase by ZOCO. In September, 1955 Kingsley and Keith (Canada) Limited, Montreal and Toronto, became sales agents for Durham Industries, and there had been no change in this arrangement at the time of the Commission hearing in March, 1958. As mentioned previously, ZOCO's plant is operated in rented premises, the lease for which expires in 1960, and this fact may have a bearing on the future organization of the two enterprises in the opinion of Mr. Therrien,

who gave the following evidence:

- "Q. Is it your plan to continue to operate Durham as a separate entity?
- A. I am only a director and I am only replacing the president while he is away. If you ask me my plan, it is that we will not continue operating two plants because we will have to move from the one on Notre Dame Street.
- Q. Will you move to the present Durham location?
- A. If my idea is supported by the board that is where we will go.
- Q. So that the two plants will become just the Zinc Oxide Company of Canada Limited?
- A. I won't commit myself on that immediately. There are many possibilities but they have not been explored yet.
- Q. Did the board of directors at any time discuss running the Durham plant for two or three years to work off tax credits, that is to use their losses for tax credits, and then dismantle it?
- A. It was mentioned at least at one directors' meeting that after we purchased that, which was allowed by law, that we could try to recuperate the losses. We have not been very successful so far.
- Q. So that I take it from you that the final disposition of the Durham plant and the company has not yet been finally decided upon?
- A. It has not yet been finally decided, but, as I said before, if my ideas are supported that is what we will do and the sooner the better, in my opinion, for administration purposes."

When questioned as to the terms on which ZOCO purchased Durham Industries, Mr. Therrien gave the following evidence:

"Q. Will you tell the Commission, did ZOCO get value for its money when it purchased these shares?

A. ZOCO got a fair value for its money and Durham got a fair value for the property sold, which was in the neighbourhood --

Q. What was the price?

A. \$205,000.

Q. Are you able to express any opinion as to whether you could have done better if you had waited?

A. You mean as to price?

Q. Yes.

A. Surely we could have done better. We just had to let them continue making losses as they were doing and we would have been able to offer a price which was lower. But there was another good reason also for ZOCO finally deciding to purchase Durham. It allowed Zinc Oxide, ZOCO, to have another type of oxide added to its own line. The experts can give you the data on the types of oxide."

(Hearing, pp. 103-4)

The scale of operations of Durham Industries and the financial results before and after acquisition by ZOCO are indicated generally in the following figures:

<u>Year</u>	<u>Production</u> tons	<u>Net Sales</u> \$	<u>Loss</u> \$	<u>Deficit Account</u> \$
1954	3,634	852,000	3,743	178,152
1955	3,021	750,000	77,974	256,125
1956	2,254	648,000	16,088	272,213

In 1957 production of zinc oxide by Durham Industries increased but that of ZOCO declined to a greater extent, so that the total output of the two enterprises taken together was lower in 1957 than in 1956. The market in Canada for zinc oxide, that is the total

domestic sales plus imports, was somewhat smaller in 1957 than in 1956, but the combined domestic sales of ZOCO and Durham Industries declined to a greater extent. In the pre-audit statement of accounts for 1957 a profit is shown on the year's operations for Durham Industries without any depreciation being taken (Exhibit H-4).

7. Continuation of Price War After Acquisition
of Durham Industries by ZOCO

It has already been mentioned that when ZOCO reduced its price of zinc oxide to 11.50¢ per pound on January 4, 1955 it was followed by Durham Industries but not by Canadian Felling. The latter did not change its list prices, although it accepted a few orders at lower prices. As previously indicated, Canadian Felling made efforts at various times during the period of reduced prices to see if ZOCO would not advance its prices to a level which Canadian Felling considered would be in line with the cost of zinc metal. The following paragraphs are quoted from a letter of March 4, 1955 from Canadian Felling to the parent company in England:

" . . .

. . . We have consistently refused to meet the ridiculous prices being quoted by our competitors and this may, or may not, have been the right thing to do. The point is that we have turned down possibly two to three hundred tons of business from our many friends all of whom offered the order to us rather than to our competitors. A typical comment was, 'We'd rather give you the order'. You can quite understand that this has been very discouraging for the writer and it is not at all conducive to a happy frame of mind. . . .

. . .

It seems to me that the crux of the whole situation is the current selling price of Zinc Oxide and what the future may bring. As was pointed out to Mr. Smith during his visit here, there is no possibility of the price changing until after March 31st, which is the end of the period for which our competitors have committed themselves. . . . The writer is going to Montreal late this month to discuss this situation with the interested people and we are hopeful that something of a concrete nature will develop. Attempts were made to have this discussion a couple of weeks ago and, because of the absence of management of at least one of the concerns until late March, this was not possible.

However, you can rest assured that we are doing, and will continue to do our utmost to insure a more pleasant picture for the affairs of Canadian Felling Zinc Oxide Limited.

. . . "

(Serials 1674-7)

Later in March, 1955 the management of Canadian Felling apparently decided that the company could not remain out of the market indefinitely, and it was probably becoming evident that the other producers were accepting orders at the low price for delivery in the second quarter. In a memorandum of March 21, 1955 to Mr. Ritchie, ZOCO's Sales Manager, Mr. French, the Toronto representative of ZOCO, reported that he had been talking to Mr. Johnson of Canadian Felling and that he was informed by the latter that Canadian Felling "proposes to meet the price and try to get some business" (Serial 430).

On April 5, 1955, the price of Prime Western zinc advanced 1/2¢ to 12.00¢ per pound and on the same day ZOCO increased the price of zinc oxide to 12.00¢ per pound. This action was followed by Durham Industries on April 6, and on the same day Canadian Felling began offering zinc oxide at 12.00¢ per pound.

On April 15, 1955, Mr. French wrote to Mr. Ritchie as follows:

"Reg. Johnson told me at the Paint Club Meeting to-day, that they have issued a price list to customers quoting 'prices at date of delivery' current car load \$12.00, LCL \$13.00.

As he put it, to prove that they were not hiding anything."

(Serial 436)

In a letter of April 20, 1955 to Mr. Johnson, Mr. R. W. Dickson, then Secretary-Treasurer, Canadian Felling, described a meeting he had had with Mr. Fichet of ZOCO and a conversation with Mr. Horsburgh of Durham Industries. The following are extracts from his letter:

"Firstly, it was evident from the outset that Fichet was not interested in discussing the Canadian produced Zinc Oxide prices, and he refused to be drawn into any discussion regarding them throughout our conversation, which

lasted about 1-1/2 hours.

. . .

Shortly after I spoke to you today, Horsburgh called me. I told him what had transpired and that Fichet was completely uncooperative. He suggested that it was time to make an additional effort to take ZOCO's business and also suggested that we (Durham and CANFELZO [Canadian Felling]) could get together on a drive. Horsburgh said that H. & C's policy has been to follow along, but they appear to be getting fed up and I have, no doubt, that our price reduction is having the desired effect. Horsburgh is going to call Fichet early next week and is to let us know what develops.

The main thing that came out of the conversation with Fichet was his interest in ZOCO and CANFELZO merging. He asked if we would be interest and, of course, I said no. I feel quite sure that he will write Felling and suggest it. It should be borne in mind, of course, that ZOCO stand to lose an awful lot on an even-price basis which is now in effect. The irony is that the price could be 20¢ per lb. and we would still be on an even-price basis.

. . . "

(Serials 1358-9)

At that time rumours of ZOCO's interest in merging with another Canadian producer reached Durham Industries. Mr. Dickson wrote to Mr. Johnson on April 22, 1955 reporting another conversation with Mr. Horsburgh:

" . . .

. . . He also has heard rumours of Zoco's interest in merging with either Canfelzo or Durham, Canada. We had better let Felling know immediately of possible overtures as I believe that a Zoco man is now in England.

Certainly Zoco have nothing to lose if a merger came about."

(Serial 1362)

That Mr. Fichet had in mind the possibility of the removal of Canadian Felling as a competitor of ZOCO as well as the acquisition of Durham Industries is evident from statements made in his letters and the approaches which he had made to Felling, England. In a letter of May 17, 1955 to Mr. Cornillat, Mr. Fichet wrote as follows (in translation):

" . . .

. . . I think then that that will be a fine piece of business for ZOCO and I hope that we shall be able to get it. As for Felling, I had them sounded out in London to find out whether there would not be some means to buy them also; they replied: 'Make us an offer'. To which I said that I could not make an offer without knowing what their situation was. One does not buy a sealed envelope without knowing its contents. So I am waiting. But I have the feeling that they are beginning to be hungry. Just this morning our Toronto salesman told us that Felling's salesman, who is also their 'Sales Manager' wanted to call Durham and us together for a meeting with a view to raising the oxide price. But I am in no hurry; I would prefer to let them die a natural death.

If the Durham deal goes through, it is essential that it should not be known because we must keep Durham in operation at least one or 2 years in order to be able to use their accumulated losses. And I would not want part of their tonnage to go to Felling and revigorate them. So 'mum's the word'. I count on your discretion. . . ."

(Serials 90-1, the original text
in French appears in Appendix C)

Writing to Mr. Boutry on May 24, 1955, Mr. Fichet said (in translation):

" . . .

. . . Now, if we succeed in buying Durham, I am simply going to try and see that the news does not spread too much so as not to provide grist for Felling's mill and I am going to continue to operate Durham without changing the organization in any way until we have used completely their accumulated losses. Meanwhile I am trying to see if we could not swallow this Felling

[company]. I would be the zinc oxide monopoly.

. . . "

(Serial 95, the original text
in French appears in Appendix C)

During the hearing before the Commission question was raised as to the accuracy of the translation of the last sentence in the extract which Mr. Fichet had written: "je serais le trust de l'oxyde de zinc." It would appear that the word "trust" has been taken in French usage with no clear definition and, in fact, the word does not have a precise meaning in its English usage.* The following comment on the use of the word has been made by Professor J. G. Castel:

"Trust or Trusts (trust): The word trust or trusts is very loosely used in Anglo-American legal-economic terminology. In general it refers to a financial scheme which groups under a single control several corporations

* The following definition of a trust is given in a report published in France by the Department of Economic Affairs:

"Le trust est la forme la plus complète et l'entente, et aussi la plus brutale. Il résulte d'une fusion -- officielle ou occulte -- d'entreprises distinctes mais qui perdent toute individualité et toute autonomie en passant sous la direction unique du trust (ou de la holding qui lui est superposés). Plus financier que technique, le trust groupe des entreprises très diverses, et tend aux bénéfices maxima, à l'expansion continue -- création de filiales, absorption de nouvelles sociétés. Il se caractérise par un esprit de lutte sans merci vis-à-vis des concurrents comme d'un esprit d'exploitation vis-à-vis de la clientèle. Toutefois le trust permet de pousser au plus haut degré la rationalisation de la production et de comprimer au maximum les prix de revient. Il atteint au monopole plus rarement que le cartel." (France, Ministère des Affaires Economiques, La Documentation Française, "Ententes et Monopoles dans le Monde", Série Française CCCXIX -- Série Economique et Financière CLXXXI, Paris, 5 Mai 1953, p. 36).

which thus lose their independence. It has also been employed to include multiple firm as well as single firm monopoly situations. On the other hand, the word trust has been used as referring to a single enterprise with a great power, especially monopoly power which has been acquired either by merger or by internal growth and concentration. It is in this latter sense that the word trust is used in this study. It is interesting to observe the difficulty with terminology which arises when comparisons are made between the legal processes in the American and Canadian law and those of continental law. Cf. Reboud, Cours d'Economie Politique (1939) sections 344 and 356." *

Shortly after Canadian Felling started in business its selling terms included 1 per cent discount for payment within ten days. These terms were apparently withdrawn during February and March, 1955 when the company was largely out of the market but were reinstated when Canadian Felling actively re-entered the market in April, 1955. The following appears in a letter of May 5, 1955 from Mr. Johnson to Mr. Dickson:

" . . .

I have felt all along that once having established terms of 1%-10:30 we should continue, for having abolished them, it left a bad taste in some peoples' mouths. In addition it was to our benefit as 90% took advantage. We therefore decided to reinstate these terms. . .

" . . .

(Serials 1368-9)

On June 6, 1955, the day the offer of the purchase of Durham Industries was accepted, ZOCO reduced prices by 1/4¢ per pound to counter Canadian Felling's terms of 1 per cent cash discount. Mr. Fichet described his action as follows in a letter on the same day to Mr. Boutry (in translation):

" . . .

At Zinc Oxide [ZOCO], the war continues: Felling, the Ontario fellow, thought it smart to offer our customers a 1 per cent discount; to which I answered with a cut of

* J. G. Castel, "France", in W. Friedmann, ed., Anti-Trust Laws, a Comparative Symposium, (Toronto, 1956), p. 91.

\$0.25 per 100 lbs. At this stroke there was a gnashing of teeth. Ritchie is plagued with telephone calls from Felling's manager protesting that they had not cut prices. While speaking this morning with Durham's manager, Ritchie was asked if I had ever thought of merging with Durham or of purchasing them. . . . I believe that this insinuation was meant to give me the idea that their financial position and especially the situation of their treasury must not be too good. I am waiting for . . . [Mr. Waechter's] reply: he has until the 17th to decide. ZOCO, itself, is not doing badly in spite of the price war. In May, although we paid our employees \$10,000 in profit-sharing bonuses for 1954, we have made \$19,400 and our working capital was \$518,000 which entitles us to expect more. But I would like to see the end of it, this business, because I think about it 16 or 17 hours a day and I am going crazy over it. . . .

. . . ."

(Serials 100-1, the original text
in French appears in Appendix C)

Canadian Felling reduced its prices by 1/4¢ to 11.75¢, and ZOCO received a draft of the new prices sent on June 7, 1955 (Serial 448). On June 13, 1955 Mr. French wrote as follows to Mr. Ritchie:

"I had a call from Reg. Johnson this morning to advise that their price list had been mailed to customers noting that terms with them in future would be net 30 days and no 1% Disc. It was the same letter that you read to me on the phone except that he had advised C.G.E. Peterboro separately that he was withdrawing the prepaid l.c.l terms as formerly in force.

Reg. said he was calling me to let me know what they were doing so that there would not be any finger of suspicion pointed at them from now on. He is pretty fed up and is wondering where it will all end, and was very sorry that the price went to \$11.75 car load.

I have not volunteered any information one way or another but thanked him for advising me of their proposed terms. At least when I make calls I know what the competition is offering and can act accordingly. Durham apparently did withdraw from the market for a day or two but are now back in again."

(Serial 450)

Durham Industries revised its prices to the new level on June 13, by which date it was under the control of ZOCO.

Mr. Fichet wrote to Mr. Cornillat on June 12, 1955. His letter included the following reference to the result of the price reduction of June 6 (in translation):

" . . .

. . . Since my last cut of 1/4 of a point Felling appear very nice; they have abolished the 1 per cent cash discount and they now sell L. C. L. delivered only in Montreal, Toronto, Hamilton and Kitchener. I do not want to get into that business myself, but I am thinking of getting Durham in there and having them sell L. C. L. delivered anywhere in Ontario. I do not think that will gain them much tonnage, but it will compel Felling to follow and I hope that that will increase the loss they already have and accelerate the downfall.

. . . "

(Serials 104-5, the original text in French appears in Appendix C)

On June 16, 1955 the price of Prime Western zinc advanced by 1/2¢ to 12.50¢ per pound, but there was no increase by any of the three producers in the price of 11.75¢ for zinc oxide.

The efforts to persuade Felling, England to withdraw from Canada were continued by Mr. Fichet. In the letter of July 11, 1955 previously cited in part, Mr. Fichet also wrote:

" . . .

[Mr. Waechter] met today with Felling in London. He was to explain to them that they have been 'taken in', that the longer they stay in Canada, the more money they will lose since there is no hope that they will get the better of either Durham or ZOCO and that at present they are spending money merely to satisfy the personal spite of Mr. Walter Dickson against Durham. If necessary I would be ready to pay them a little something to get out. Although I do not like to yield to blackmail, yet it would be quickly recovered if we were to be the only producers in Canada. . . . [Mr. Waechter] should telegraph or

telephone me the result of the interview.

. . . "

(Serial 113, the original text in
French appears in Appendix C)

The approach to Felling, England in July, 1955 was not successful, and Mr. Fichet arranged for a further visit by Mr. Waechter in September. He wrote to Mr. Cornillat on August 29, 1955 (in translation):

" . . .

Nothing new at ZOCO. We are going to produce 550 tons in August, which would not be bad, but at starvation prices. Felling's persist in not giving up. . . . [Mr. Waechter] went to see them at the beginning of July. They had just heard from Pigment and Chemicals, their Montreal agents, that Durham was dying, which meant that the price war was going to end and that they were going to make profits. . . . [Mr. Waechter] will return shortly and tell them that he is the present president of Durham, that he has a powerful group supporting him and that he has not the least intention of retiring from business, but, on the contrary, [he intends] making competition even more severe. We shall see what effect that douche of cold water will do. While waiting, I have reduced Durham's expenditures as much as possible; it is all that I can do for the present. As the selling price does not even represent the cost of the raw material, the direct costs of production, the bags and the delivery costs, there is no point in increasing their tonnage since that would only increase their loss. But I do not think for August the result will be disastrous. And what consoles me is that it must be as bad also for Felling's.

. . . "

(Serial 137, the original text in
French appears in Appendix C)

In a letter to Mr. Boutry on August 30, 1955, Mr. Fichet wrote (in translation):

" . . .

Business. I learned yesterday something which fills me with joy: Felling's will have lost 40,000 pounds during the [past] year. At \$2.75, that makes \$110,000. As they had put into the game \$150,000, not much remains and we may hope that they will die soon. That gives me satisfaction.

. . . "

(Serials 138-9, the original text in French appears in Appendix C)

Mr. Fichet wrote again to Mr. Boutry on September 9, 1955, and his letter included the following (in translation):

" . . .

. . . [Mr. Waechter] ought to be in England now and trying to persuade them that they [Felling England] would do much better to liquidate at once. In order to secure that result, I told . . . [Mr. Waechter] to convince them that Durham would not give up and that the price war would last until they, Felling's quit. On the other hand if they wanted to give up at once, they would save first what they are losing every month, and besides we could purchase their equipment, which is really only worth its price as scrap, for \$15 or \$20,000. If, on the contrary, they are forced to wind up in a few months, we would not buy anything at all and that will increase their loss that much.

I would very much like to see that settled quickly, primarily because Hudson Bay will not support us indefinitely. For the last eight months I have to use a great deal of eloquence every month to persuade them to keep on for one month longer; up to the present, I have succeeded, but I feel that I am near the end of my rope. For it is only thanks to them that we have been able to sustain this price war and at the same time make \$61,000 profits in 8 months. Moreover there is Durham who have not Hudson Bay to support them. In July, they lost \$5,500 and in August \$8,900. That is why I am eager to see the end of this squabble; but I would very much like that the

end of the squabble would also be the end of Felling's.
We could then work in peace.

. . ."

(Serials 141-2, the original text in
French appears in Appendix C)

The continued existence of Canadian Felling as a factor
in maintaining the price war was indicated in a letter which Mr. Fichet
wrote to Mr. D. Macbeth in England on September 13, 1955:

" . . .

. . . But finally we got all the capital shares
of Durham. There is still a 3rd competitor in Ontario,
a subsidiary of Felling's (England). I know that they
have been losing money steadily [sic] since they started
to manufacture in Canada; but how long will they keep on?
Their being in business prevents me to stop the price war;
so our own profits for 1955 will not be very spectacular.
But if we can get rid of them, we will remain the only
zinc oxide manufacturer in Canada and we feel that we
could then make pretty good profits.

. . ."

(Serial 143)

In a letter of September 24, 1955, to Mr. Boutry, Mr.
Fichet described the result of the further visit by Mr. Waechter to
Felling, England. Mr. Fichet wrote that the English firm was no
longer optimistic about its Canadian operations but was reluctant to re-
tire from Canada by selling out to ZOCO. Instead they had suggested
the creation of a new company in England to acquire ZOCO and Durham
Industries through the exchange of shares in the new company. The
suggestion of shares in sterling did not appeal to Mr. Fichet, who wish-
ed further negotiations. He told Mr. Boutry that a merger had first
been suggested in connection with Durham Industries, but a sale was
finally accepted. The following are extracts (in translation) from his
letter:

" . . .

. . . Consequently, the only thing they [Felling]
have to do is to put aside their pride, or vanity, dignity
(call it what you like), wind up their Canadian company and,

under the pretext of selling the machinery which is really worth nothing, accept from us \$15 or \$20,000 to decamp. . . . If Felling were disappearing I could by degrees raise the prices up to a normal level and put Zoco and also Durham in a position to make money. I am the more in a hurry because last Wednesday we had a visit from Buchanan, the representative of Hudson Bay. . . . He said he doubted [if there is a new Chairman] that he will consent to sell us zinc below the current price as they have been doing for the last ten months. This is the reason why the Fellings affair is more and more urgent. I have once more obtained a special price for October, but there is nothing sure for November. If negotiations with Fellings were sufficiently advanced, I would not mind continuing the price war at our expense exclusively for a month or two; but, if nothing has been started, I will be obliged to give in. This is the reason why I await with so much impatience the report of [Mr. Waechter]. It is Foch or Petain, I believe, who said that victory belongs to the one who holds a quarter of an hour more than his enemy. I am under the impression that we are living in that last quarter of an hour. It is a war of nerves. Fortunately I am solid enough in that regard and I succeed in giving the impression of a perfect calm but, between us, it is only a pretence. It is a big game I am playing. If I win, ZOCO remains the only producer in Canada, and life is fine; but if I lose, that is if Felling's does not disappear, I will have sacrificed a year of profits or thereabouts, and the fight will continue as keenly as in the past. We should see next week how things will come out.

. . . . As for the accounting, I have already begun to reorganize it so that we may understand something about it and learn from it what there is to do to make that business a paying proposition or at least less of a losing one; because I do not expect to make it pay as long as the price war is not settled. What consoles me is the thought that our competitors are not better off than I, quite the contrary. A former salesman of Chemicals, a friend of Ritchie's met Robert Dickson, the president of Felling's (Canada) last week and innocently asked him how his zinc oxide business was going. Dickson answered him: 'This darn thing is driving me crazy! We did not sell a pound of zinc oxide on which we did not lose money.' And I believe that is the truth. Meanwhile we have made \$61,000 profits up to August 31 and in September we ought to have made between \$8 and \$10,000. Besides that we have still more than \$300,000 in working capital, which they certainly do not have.

If I succeed in driving them home with a kick in the pants, we ought to have peace for some time because other English producers will have become less interested [lost their enthusiasm]. If they see the 2 principal oxide producers forced to quit and withdraw leaving their tail feathers, they ought not to be very tempted to renew the experience.

. . . "

(Serials 145-6, the original text in French appears in Appendix C)

On September 6, 1955 the price of Prime Western zinc increased by 1/2¢ to 13.00¢ per pound and on the following day prices of ZOCO and Durham Industries for zinc oxide were also increased by 1/2¢ to 12.25¢ per pound. Canadian Felling applied the new price of 12.25¢ to orders accepted after September 7, although it did not issue a new price list until September 20.

As mentioned previously, Kingsley and Keith (Canada) Limited were appointed sales agents for Durham Industries in September, 1955. A meeting of Mr. Dupuy of Durham Industries with representatives of the company's new sales agents was held on September 26, 1955 according to the following memorandum:

"REPORT OF MEETING WITH K. & K. - SEPTEMBER 26th, 1955.

PRESENT: D. EVANS, A. MORELAND & R. DUPUY.

IT WAS REPORTED THAT: Customers were not satisfied with the service they were getting from Durham through Dillons.

Two different parties mentioned to me (Evans & Jaffe) that French had told the most important P. A. [purchasing agent] in the rubber industries, between Sept. 1st to 16th, that Zoco were now controlling the sales of steel grits and Durham's oxide besides their own oxide.

The rubber industries in the province of Ontario and Dominion Rubber in Montreal have agreed to keep Felling in business regardless of prices. They now feel that it would be unfair to buy exclusively in Quebec to the prejudice of the only zinc oxide manufacturer established in Ontario.

Mr. Evans was told by a few that he would not get any of the business if Durham cuts prices and further that they would pay Felling their cost price in order to keep their doors opened

(apparently some of them have seen Felling's cost sheet.

Johnson sold them large quantities of oxide at the old price as soon as he knew of the increase.

Evans is of the opinion that if we increase our prices, they will follow;

Evans also mentioned that he does not know how long they will be able to stick to that story of the Swiss owners because he is told by everyone that Zoco has bought Durham with the intention to use Durham against Felling.

He thinks that a personal contact of our President with the bigger accounts would probably calm them down and do a lot of good.

I repeated to K. & K. that Sharon Inv., a (Swiss) group of financiers had bought Durham and that was the fact and the only information we could give our customers."

(Serial 629)

In view of its unprofitable operations, Canadian Felling became short of working capital in 1955 and made repeated efforts to have the parent company furnish additional capital. One proposal was that Felling, England take up the balance of the outstanding shares which would amount to about \$27,000. A letter of November 4, 1955 from the parent company to Canadian Felling discusses this suggestion:

" . . .

You state there are two solutions to our financial worries, (1) that we send out \$27,000 (2) that we sell the undertaking. My reply to these alternatives is that there could be a possible third suggestion, namely to have a 'tie-up' with ZOCO.

As for the suggestions you have put forward, we cannot send out money whilst the Company is not actually earning profits - nor would we wish to - and we do not feel like offering the Company to the highest bidder.

There remains only, therefore, the acceptance of orders at remunerative prices and if these cannot be obtained, to close down temporarily or to amalgamate with ZOCO - which as you know we are not anxious to do.

I cannot see why you must quote the same price as Zoco especially when to do this is absolutely uneconomical.

..."

(Serials 1465-6)

Mr. Johnson's reply to this letter was made on December 20, 1955 according to the following letter of January 9, 1956:

"We have your letter of December 20, 1955, under reference HN/JCG, regarding some preliminary skirmishes that you have had with our present opposition with a view to a possible tie-up. The writer has discussed this matter on the telephone with Mr. Johnson, who, as you know, is away on vacation.

We feel that our comments on such a tie-up have clearly been given in Mr. Johnson's letter of December 20, 1955 but less [sic] this letter has been some way mislaid, the following paragraph refers to this subject:-

'In the first paragraph of page two of your letter of November 4th you have suggested a third alternative to our present problem and that is a possible tie-up with Zoco. Here I must state unequivocally that I personally would have nothing to do with such a project. I personally have been extremely critical of the mal-practices of Zoco, both from a personell [sic] point of view and as a company, and I feel that this company and its management through its deliberate and unsound business practices has placed the Canadian zinc oxide industry in a position from which it will not soon recover. To feel as strongly as I do about them and then to turn around and suggest a merger would be tantamount in my opinion to selling my soul and that is something I will never do. If it came to such a situation then I would suggest anything but that. It goes without saying that in a tie-up with Zoco it is quite obvious, at least to us over here, that Canadian Felling would in the long run, benefit little, if any. We have worked too long and too hard in an effort to compete with Zoco to turn around and merge with them in any way whatsoever. So much for that.'

However, your letter is not clear as to what you have in mind and we would appreciate any details that you can let us have at your earliest convenience, at which time we will certainly comment more fully on the matter."

(Serial 1731)

8. Termination of the Price War

On January 6, 1956, the price of Prime Western zinc advanced $1/2\text{¢}$ to 13.50¢ per pound and the same day the prices of ZOCO and Durham for zinc oxide were increased by $1/2\text{¢}$ to 12.75¢ per pound. Canadian Felling advanced its prices on January 9, 1956 and described its current position in the following letter written on the same day to the parent company, Felling, England:

"We have your letter of December 28, 1955, under reference HN/JCG, regarding the pricing of Zinc Oxide.

We wish to assure you that all prices on Canfelzo zinc oxide are fixed after discussion between Mr. Johnson and the writer. To date, this has merely been a case of following competition and in this regard, information obtained by Mr. Johnson both from our customers and competitors has been most helpful.

We have no doubt your letter was written prior to receiving Mr. Johnson's letter of December 20, 1955 in which he discusses the effect of increasing our price above that of our competitors. We had expected a price increase either early this month or on February 1st but since metal increased by fifty cents per hundred pounds last week and our competitors only increased the oxide price by fifty cents, (which increases our margin to approximately two dollars per ton) we are not too optimistic that this price increase will occur. Frankly, we are wondering if the preliminary skirmishes you have had with them have not convinced them that their price war was bearing fruit and for this reason they have decided to extend the depressed price. This we can only tell when we have further details on the nature of your preliminary skirmishes.

We would again ask for your further information, at which time Mr. Johnson will be back and we will again write you."

(Serial 1729)

Under date of February 15, 1956 Canadian Felling issued a price list with new prices effective February 20. In this list the price of standard grade zinc oxide was increased to 14.25¢ per pound, or an advance of $1\ 1/2\text{¢}$ over the price of 12.75¢ established in January. A similar price was put into effect by ZOCO on February 21 and by Durham Industries on February 22.

Mr. Therrien gave the following evidence concerning the advance in prices in February, 1956:

- "Q. Now, you say that Felling finally increased their price and that then ZOCO followed. Did you have any approach from Felling before they did that? Did they come to you?
- A. On many occasions prior to 1956 and after 1956 I had reports that we were approached and I have issued strict instructions at every time, as well as Mr. Fichet, that we are not interested in arrangements to establish prices, that we can fix our own price policy.
- Q. In connection with this final price increase that was made, was there a specific approach by Felling to you that there should be an agreement you would both agree to raise prices?
- A. It was not made to me personally.
- Q. Was it reported to you?
- A. It was reported to me.
- Q. In the course of your business?
- A. That they were asking us to raise prices and we refused.
- Q. What did you do in response to that report?
- A. My instructions were to let them do what they want and then we will see after.
- Q. Was there any agreement on your part that if they would go up you would go up?
- A. There was no such agreement.
- Q. So they finally tired of the fight, is that correct?
- A. In my opinion they got tired of taking their own medicine.
- Q. Then after they had raised their price you followed suit, is that correct?

A. We did, yes.

Q. What was the outcome of this price war so far as Felling was concerned? Are they still in business?

A. Yes. I didn't get the meaning of your question at first. They are still in business and according to my information they have increased their output and their sales.

Q. In that connection I would ask you to refer to pages 249, 250 and 251 of the Statement of Evidence which were given to us this morning. Have you had a chance to look at those?

A. I looked at them briefly when you showed them to me this morning, or at noon time.

Q. I observe that for the year 1956 on page 249 it is indicated that Felling had sales of 3,170,460 pounds in 1956, representing apparently 14.2 per cent -- I have not checked it -- of the sales of the three companies; is that right?

A. That is what the document indicates, 14.2 per cent of the whole.

Q. It is 14.2 I think of the entire Canadian market because I see there is 5.6 per cent represented by imports.

A. Of the Canadian market, that is what it shows on the document.

Q. Those are sales, and then here are the production figures which are substantially the same, although apparently Felling managed to sell slightly more than they produced in 1956; is that correct?

A. That is correct. The figures shown on the document are 3,139,530 pounds.

Q. Then, if you will turn to page 251 there are some figures given indicating apparently what is intended to be the financial position of Canadian Felling in 1955 and 1956. You have looked at those figures?

A. I have looked at those figures. Their net sales, comparing 1956 to 1955, show a little short of twice the

amount in 1956 as it was in 1955.

Q. Then we see the next thing is the net profit figure and that they made a net loss in 1955 of \$15,000-odd, and that was converted in 1956 to a net profit of \$9,545?

A. That is what is shown on the document.

Q. That net income after taxes figure is the same for 1956, I presume, because they had to pay no taxes by reason of the loss they had incurred the year before?

A. That is true.

Q. Just before we leave Felling. Since the incident you have told us about at the termination of hostilities or prior to it, when they came to you and wanted you to agree to raise prices, have they approached you since then seeking a gentleman's agreement on prices?

A. I had reports that they approached us for determining prices -- I don't know whether they meant a gentleman's agreement -- but I had reports we were approached and my instructions were exactly the same as they were before -- we can establish our own price policy and we do not have to agree with anyone else.

Q. There has been no such agreement?

A. There has been no such agreement."

(Hearing, pp. 87-91)

In cross-examination Mr. Therrien gave the following evidence:

"Q. Of course you knew for a long time before this that Felling wanted to put it up, did you not?

A. I had heard about it, yes.

Q. Was there any difference in your reply on the last occasion that they approached you?

A. I never talked to them personally.

Q. Was there any difference in the instructions which you gave?

A. No. My instructions have always been that we would watch the market. If they go up to a certain normal level we would follow, but I would never take the first move because I have no confidence in them."

(Hearing, pp. 140-1)

On August 1, 1956 the three Canadian producers of zinc oxide increased prices to 14.35¢ per pound. Price lists announcing the change in prices, which was attributed to a recent increase in transportation costs, were issued by Durham Industries on July 12, by ZOCO on July 13 and by Canadian Felling on July 16. No further changes in the price of standard grades of zinc oxide were made until May, 1957 when a decline began in the price of zinc. By July, 1957 the price of Prime Western zinc had declined to 10.00¢ per pound and the price of zinc oxide to 12.20¢ per pound. No further changes occurred up to the time of the hearing before the Commission. The dates of the various price changes are as follows:

	Prime Western	Zinc Oxide		
	Zinc ¢/lb.	ZOCO ¢/lb.	Durham ¢/lb.	Canadian Felling ¢/lb.
1957				
May 6	12.00			
May 7		13.30	13.30	
May 8				13.30
May 15	11.50			
June 5	11.00			
June 6		13.00	13.00	13.00
June 20	10.50	12.60	12.60	12.60
July 2	10.00	12.20	12.20	12.20

9. Relative Positions of Zinc Oxide Producers

It will have been noted from various references in the evidence reviewed in this and earlier chapters that with the stagnant market for zinc oxide in Canada any change in the relative positions of the producers has a pronounced effect upon operating results. At the same time the relationship between the cost of zinc metal and the selling price of zinc oxide is also of major importance, because if the price of the latter is not sufficient to cover metal and operating

costs an increase in volume of output would mean a corresponding increase in operating loss. In order to illustrate the significance of the cost of zinc metal in relation to the prices of zinc oxide the Director included in the Statement of Evidence a table based on the experience of the three producers of zinc oxide in obtaining yields of zinc oxide from virgin zinc. It has already been mentioned that the combining of oxygen with zinc in the production of zinc oxide results in a greater yield of the latter from a given quantity of zinc. The table prepared by the Director embraced the period from November 15, 1950 to August 15, 1956. Using the same method of computation the Commission has added comparable figures for July 2, 1957. It should be noted that any change in the ratio of yield for any producer since the period embraced by the information secured by the Director would result in different figures for the later date than those shown. Explanatory statements of the Director in regard to unit costs and margins over raw material costs are included in Schedules 5 and 6, Appendix A.

Table IX

Estimated Spreads Between Unit Zinc Metal Costs
and Unit Zinc Oxide Prices for Three Canadian
Zinc Oxide Producers on Specific Dates*

(cents per lb.)

Date	ZOCO **		Producer	Canadian Felling
	A	B	Durham Industrie s	
Nov. 15, 1950	3.1	3.1	3.1	-
Jan. 15, 1951	3.0	3.0	3.2	-
Jan. 15, 1952	3.4	3.4	3.8	-
Feb. 15, 1952	2.9	3.4	3.4	-
Nov. 30, 1952	4.2	4.7	4.8	-
May 15, 1953	3.5	4.6	4.4	-
June 15, 1954	3.4	4.5	4.3	-
Sept. 15, 1954	2.2	3.3	3.1	2.8
May 15, 1955	1.2	3.1	2.0	1.8
Oct. 15, 1955	.6	2.5	1.4	1.1
June 5, 1956	2.2	3.3	3.0	2.7
Aug. 15, 1956	2.3	3.4	3.1	2.8
July 2, 1957	3.6	4.1	3.9	3.6

Estimated spreads based on assumed use of virgin zinc metal only by the three producers. Zinc oxide prices are carload prices for the principal grades of each producer: Blue Seal oxide for ZOCO; Red Seal oxide for Durham Industries; and D-4 and F.A.P. oxides for Canadian Felling. In so far as the producers may have used cheaper secondary zinc in their production and in so far as gross unit selling prices may exceed the list prices of the principal grades, the data in the table would be an underestimate of the spread between the actual unit metal costs and actual unit zinc oxide prices.

Data for ZOCO in Column A have been computed assuming ZOCO purchased zinc metal at customary quoted prices for High Grade zinc. Data in Column B have been computed assuming ZOCO purchased metal according to special price agreements in effect between Hudson Bay and ZOCO after February, 1952.

The foregoing table shows in some measure the significance which the confidential price arrangements between Hudson Bay and ZOCO for the supply of zinc metal had in the operations of the latter. The part which such price arrangements played during the period of the price war has already been made clear from the correspondence of Mr. Fichet which has been cited.

In May, 1955 Hudson Bay ceased casting Special brand zinc, although it continued to supply zinc to ZOCO at a price one cent below the price of Prime Western zinc until almost the end of the first quarter of 1956. An invoice dated March 27, 1956 shows part of the shipment at a price one cent below Prime Western and the other part at the price of Prime Western. At the time of the hearing before the Commission Hudson Bay was continuing to supply Electrolytic zinc to ZOCO at the price of Prime Western and was also supplying Durham Industries on the same basis.

In his evidence to the Commission Mr. Buchanan stated that Hudson Bay made the decision to withdraw the concession to ZOCO of one cent below Prime Western on February 20, 1956, and the reason for later shipments at this price was to cover some prior commitments made by ZOCO. His evidence on this point was as follows:

- "A. Well, when the price war or the so-called price war ended we said to ZOCO, 'Up goes the price.' If you will notice, at that time there was an order placed in February which was on a split basis. We had to cover some prior commitments ZOCO had made, and that order was split with some 200 tons at the old price, that is one cent below Prime Western, and there were 280 tons at the full price. The reason for the split basis was the commitments that had been made during that so-called price war period and it allowed ZOCO to clean up their books."

(Hearing, p. 208)

During 1955 Hudson Bay sold ZOCO 150 tons of zinc billed as Electrolytic and 5,257 tons billed as Special brand. Of the latter only 1,751 tons were cast as Special because in May, 1955 Hudson Bay discontinued casting of Special brand zinc for ZOCO. It will be recalled that Electrolytic zinc of Hudson Bay is equivalent to High Grade Zinc which, in 1955, was nominally priced in Canada at a premium of 1.35¢ per pound above the price of Prime Western. Hudson Bay supplied this quality of zinc to ZOCO at a price one cent per pound below the price of Prime Western zinc in 1955. If account is taken only of the one cent per pound additional allowance it will be seen from the tonnage

figures given above that the price concession, in this respect, amounted to \$105,140 for the year. This considerably exceeded ZOCO's profits before taxes in 1955 which were \$75,077 (Table 17, Appendix B). As indicated by Mr. Fichet in the letters previously quoted, it was only with the assistance of Hudson Bay that ZOCO was able to carry on the price war and show a profit on the year's operations.

The financial position of Canadian Felling during and after the price war is indicated by the following financial statistics submitted to the Director by the company:

Financial Position of Canadian Felling
1955 and 1956

	<u>1955</u>	<u>1956</u>
Net Sales	\$ 267,072	\$ 444,980
Net Profit (P) before Taxes or Net Loss (L)	\$ 15,711 (L)	\$ 9,545 (P)
Net Income after Taxes	\$ -	\$ 9,545 (P)
Deficit	\$ 44,214	\$ 34,670
Capital Stock:		
Common Shares issued	\$ 123,300	\$ 123,300

The improvement in the financial position of Canadian Felling continued in 1957 as the company increased its output and sales.

The changes in the relative shares of the domestic market supplied by ZOCO, Durham Industries and Canadian Felling are shown in Table 4, Appendix B. During 1955, the total market for zinc oxide in Canada rose about 10 per cent. Imports declined so that the total sales of Canadian producers increased somewhat more. Domestic sales of Durham Industries continued to decline while those of ZOCO and Canadian Felling increased. The former's share of the market rose to 59.1 per cent, while the share of Canadian Felling advanced to 9.1 per cent. In 1956 there was a further increase in the market for zinc oxide in Canada which was supplied by Canadian producers, as imports declined. Canadian Felling's share of the domestic market advanced to 14.2 per cent from 9.1 per cent in 1955, while the shares supplied by ZOCO and Durham together declined from 83.0 per cent in 1955 to 80.2 per cent in 1956. These trends continued in 1957 as Canadian Felling increased its sales during a period when the total market for zinc oxide in Canada fell off from the high level of 1956.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

1. Conclusions

This inquiry has been concerned with a narrow segment of Canadian secondary manufacturing industry utilizing one of Canada's basic raw materials, zinc, for the further processing into zinc oxide which is used in various ways by other manufacturing industries in this country and abroad. Important outlets for zinc oxide are the rubber products and paint industries, but it is also used in synthetic textiles and other industries, including pharmaceuticals. While the tonnage of zinc used for the production of zinc oxide in Canada appears small in relation to the total tonnage of zinc mined in Canada, it forms a significant part of the domestic sales of refined zinc, ranking third or fourth among the consuming industries and constituting from 11 to 14 per cent of the total tonnage of refined zinc used in Canada, according to figures compiled by the Department of Mines and Technical Surveys. However, Canadian consumption of zinc forms less than 15 per cent of the output of primary zinc, the preponderant part being exported. Almost 90 per cent of the exports of zinc concentrates go to the United States, which also takes more than half the exports of refined zinc. The United Kingdom is also a very substantial importer of Canadian refined zinc, the value of its imports forming from 30 to 40 per cent of Canadian shipments. The subjects of the inquiry have been the practices followed and arrangements made with respect to the supply of zinc metal and the sale of zinc oxide in the Canadian market.

The conclusions of the Commission with respect to these matters are as follows:

1. The Canadian market for zinc oxide is dependent directly upon the requirements of consuming industries, which have shown no persistent growth in the post-war period and which vary with the general level of industrial activity. At times there are opportunities for export sales of zinc oxide, but the volume of export sales has shown great variation from one period to another.

2. There are only two producers of refined virgin zinc in Canada, Cominco and Hudson Bay. Cominco is the larger producer, with output about three times that of Hudson Bay. Market prices of refined zinc are quoted by Cominco and published in the press. Hudson Bay does not issue any prices and uses market prices for nominal quotations.

3. Market prices of refined zinc for sales in Canada in recent years have been related to market prices in the United States, particularly for the standard grade known as Prime Western. Differentials for other grades have been the same in both Canada and in the United States during some years but since January, 1957 the price differentials in Canada have been lower than in the United States.

4. In recent years Hudson Bay has produced only two grades of zinc--Electrolytic, equivalent to High Grade, and Four Nines Plus, equivalent to Special High Grade. The Commission considers that the Special brand supplied by Hudson Bay to ZOCO may be included in the former. Cominco sold in Canada grades of zinc consisting of Prime Western, High Grade, Special High Grade, Brass Special and other grades. The first named usually formed from one-half to two-thirds of total domestic sales (Table 15, Appendix B).

5. About January, 1953 trading in zinc was resumed on the London Metal Exchange and since that time the price of zinc in the United Kingdom has been lower than in Canada for considerable periods. The difference between the two markets has ranged, at times, from 1 1/2¢ to 1 3/4¢ per pound.

6. Imports of zinc oxide in the form of zinc white from the United Kingdom and Commonwealth countries are duty free under the British Preferential Tariff. At times in recent years manufacturers of zinc oxide in the United Kingdom could produce zinc oxide from zinc exported from Canada and, after providing for expenses of manufacture and transportation, have been able to lay down the resulting product at Canadian ports at a cost only slightly above the price of zinc metal offered to Canadian zinc oxide producers.

7. ZOCO established a plant in Montreal in 1933 to manufacture zinc oxide, which up to that time had to be imported, principally from the United Kingdom. From 1933 to 1947 ZOCO remained the only substantial producer of zinc oxide in Canada, with a capacity, which had been increased to 20,000 tons per annum during the war, sufficient to supply the entire Canadian market and to provide export tonnage as well. Since its inception ZOCO has used a process for the manufacture of zinc oxide which requires relatively pure zinc of the quality produced as Electrolytic zinc by Hudson Bay.

8. Since 1948 when Hudson Bay set up its own sales organization (its production had previously been marketed jointly with Cominco) ZOCO has been Hudson Bay's only zinc oxide customer in Canada and its largest domestic customer. Almost one-third of Hudson Bay's domestic sales are made to ZOCO. The most extensive use of zinc in Canada is for galvanizing purposes, for which Prime Western is suitable, but Hudson Bay does not produce this grade.

9. Between 1945 and 1954 operations of ZOCO were highly profitable in most years, and this was particularly the case in the immediate post-war period when export sales were made on a substantial scale (Tables 5 and 6, Appendix B).

10. In 1947 Durham Chemicals Limited of England established a subsidiary company in Canada for the production of zinc oxide and other operations. A plant was first set up at Cap-de-la-Madeleine, P.Q. but in 1949 a factory was established in Montreal, P.Q. with a capacity of 10,000 tons per annum, or sufficient to supply the usual level of demand in Canada. The new producer, Durham Industries, employed a method of production, differing from that of ZOCO, in which Prime Western zinc could be used. In addition, Durham Industries could also produce off-grades of zinc oxide from scrap zinc. Such off-grades were considered suitable by some users in Canada and, also at times, by buyers in the United States. It apparently became customary to sell some off-grades of zinc at a lower price than standard grades.

11. From 1947 to 1954, ZOCO and Durham Industries sought to supply the domestic market. The share of Durham Industries rose from 3.8 per cent in 1945 to 47.0 per cent in 1950, and thereafter declined to 33.9 per cent in 1954. Its domestic sales also declined absolutely from 1950 to 1954.

12. Beginning in 1948, Hudson Bay allowed ZOCO rebates and price allowances to assist it in competing in certain export markets.

13. In January, 1952 Hudson Bay agreed to sell Electrolytic zinc to ZOCO at a confidential price equal to the Prime Western price plus 3/4¢ per pound to meet import competition. At this time and until January 14, 1957 the market price of Electrolytic zinc in Canada was the Prime Western price plus 1.35¢ per pound. Hudson Bay did not offer to supply Electrolytic zinc at the same price to any other user in Canada. The following explanation of the price concession was given to the Commission by Mr. Buchanan of Hudson Bay:

"A. . . .

'

To meet this specific import competition in 1952, Hudson Bay agreed to sell ZOCO electrolytic zinc at quoted Prime Western price, plus three-quarters of a cent. Zinc shipped under this new price arrangement was to be invoiced as Hudson Bay "oxide grade" zinc. The Hudson Bay oxide grade zinc was to be supplied from the electrolytic stock and the transaction was to be kept confidential to avoid dis-

turbing the general marketing by Hudson Bay of electrolytic brand zinc in so far as its other customers were concerned. Namely, die casters, battery makers and brass makers. ' "

(Hearing, pp. 156-7)

14. In December, 1952 Hudson Bay offered to treat shipments of zinc oxide by ZOCO to the Vancouver area as export shipments and allow the same price concession on zinc that was available on zinc used for export shipments of zinc oxide.

15. During the first quarter of 1953, Hudson Bay agreed to cast a Special brand of zinc for sale exclusively to ZOCO at the price of Prime Western zinc. The zinc was to be cast during cleanup periods and when Electrolytic solutions were less pure than in the case of regular casting of Electrolytic zinc. In the opinion of the Commission the lots of Special brand zinc so cast did not differ materially from the grades of zinc supplied to ZOCO as Electrolytic zinc. Hudson Bay did not offer to supply any other user in Canada on the same terms as those granted to ZOCO.

16. In 1953, The Felling Zinc Oxide Company Limited of England, who had had sales agents in Canada prior to World War II, decided to establish a subsidiary company to manufacture zinc oxide at Milton, Ontario. This location was in closer proximity to large users of zinc oxide in the rubber products and paint industries in Ontario than the zinc oxide plants in Montreal. Preliminary production at the plant of Canadian Felling at Milton was undertaken in April, 1954 but the factory was not fully equipped until August, 1954. Its capacity is rated at 3,500 tons per annum. The process of manufacture employed enables Prime Western zinc to be used and also scrap zinc for the production of off-grades of zinc oxide.

17. Durham Industries had very large losses in the early years of its operations and, while profits were made during the Korean War boom and in the production of zinc oxide in some years subsequently, a heavy deficit had been created by 1953, and toward the end of that year the parent company in England decided to seek a buyer for its Canadian subsidiary. The possibility of Durham Industries quitting the zinc oxide business and its difficult financial situation were mentioned in correspondence by Mr. Fichet of ZOCO early in 1954.

18. Until the summer of 1954 when Canadian Felling entered the Canadian market, ZOCO and Durham Industries appear to have sought business in Canada with no severe disturbance of the price structure for zinc oxide. In fact, officials of Durham Industries considered that they had always worked very closely with ZOCO in matters

of price. However, from at least June, 1954 on Durham Industries considered that ZOCO was drastically reducing prices and, on occasion, accused ZOCO of cutting prices. As the only change in list prices of zinc oxide between September, 1953 and September, 1954 was an advance in price on June 2, 1954 the references by Durham Industries must have been to sales below list prices. It was the opinion of Durham Industries that the changed position with respect to prices was brought about by ZOCO's reaction to the entrance of Canadian Felling into the Canadian market.

19. On September 1, 1954, ZOCO reduced the price of zinc oxide by .8¢ per pound, although there had been no reduction in the price of zinc, and, in fact, on September 3, 1954, the price of zinc advanced 1/2¢ per pound. This drastic price reduction, which was maintained after the advance in the price of zinc on September 3, was stated by ZOCO to have been made necessary by the offering of English zinc oxide in Canada at prices substantially below the level of those of Canadian producers. The reduced price of zinc oxide narrowed considerably the margin between zinc metal cost and the selling price of zinc oxide. While this reduced the profitability of ZOCO's operations it increased the financial difficulties of Durham Industries and made it unlikely that Canadian Felling could get into production on a profitable basis. Apparently Durham Industries and Canadian Felling did not regard the competition from English zinc oxide as seriously as did ZOCO. They discussed the desirability of increasing prices and also approached ZOCO on several occasions in efforts to have the price of zinc oxide raised to a higher level in relation to the price of zinc. The fact that at this time ZOCO was buying high quality zinc from Hudson Bay on a confidential basis at the price of Prime Western was not known to ZOCO's competitors.

20. On January 1, 1955 ZOCO reduced the price of zinc oxide to 12.35¢ per pound and on January 4 a further reduction to 11.50¢ per pound was made. The circumstances which preceded the actions by ZOCO are not established clearly by the evidence. According to Mr. Fichet of ZOCO the reduction made on January 1 was to meet a price which had been quoted by Canadian Felling. According to the latter the quotation which gave rise to ZOCO's action was made by Canadian Felling on zinc oxide manufactured from scrap and offered at the customary differential of one cent per pound below the price of regular grades. The experience of Durham Industries that zinc oxide was being sold below list prices as early as June, 1954 has been mentioned above. Although the evidence does not give the complete circumstances as to the reduction in price on January 1, there is much fuller information as to the price reduction to 11.50¢ per pound which shortly followed. This was a deliberate attempt by ZOCO to undercut its competitors severely in price and by taking orders for the first quarter of 1955 at this time to foreclose the Canadian market as far as possible to Durham Industries and Canadian Felling. In order to make

such a drastic reduction in the price of zinc oxide ZOCO secured from Hudson Bay an additional confidential allowance of one cent per pound below the price of Prime Western zinc.

21. The situation in the zinc oxide industry in Canada at the beginning of 1955 was that the capacity of ZOCO was about double the prevailing domestic demand, that of Durham Industries about equal to the tonnage used in Canada and that of Canadian Felling about one-third that of Durham Industries. With a stagnant market increased sales by any one producer would mean smaller sales for one or both of the others and an increase in overhead costs per unit of output with any reduction in sales. Hudson Bay was concerned that any loss of business by ZOCO would mean a loss of sales of zinc by Hudson Bay, as the other two producers of zinc oxide were using Prime Western zinc, which Hudson Bay did not produce. Before the Commission Hudson Bay took the following position with regard to the confidential allowance which it gave to ZOCO beginning in January, 1955:

"A. . . .

In 1955 the zinc oxide market was highly competitive. It was not to eliminate Felling and Durham that Hudson Bay lowered its price, but rather to keep its only Canadian customer [ZOCO] in the zinc oxide industry -- its largest single customer; (33 per cent of Hudson Bay's domestic sales), competitive with Felling and Durham. . . ."

(Hearing, p. 180)

When the price war was begun by ZOCO, Hudson Bay apparently came to the conclusion that the situation could only be stabilized if the number of producers was reduced. Mr. Buchanan of Hudson Bay wrote to Mr. Fichet of ZOCO on February 18, 1955:

" . . .

So long as there are three Zinc Oxide producers in Canada any satisfactory price level will be difficult to maintain. Some how one producer must be taken over to narrow the field down to two producers.

. . . ."

(Serials 63-4)

In a letter of March 2, 1955 informing ZOCO that Hudson Bay was continuing the special allowance, Mr. Buchanan wrote that the "ideal set-up would be if an amalgamation of the three oxide producers could be made. . . ." (Serial 421).

2. The reduction in the price of zinc oxide to 11.50¢ per pound by ZOCO was met by Durham Industries, but Canadian Felling did not change its list prices. In the evidence which Mr. Buchanan gave to the Commission the following statement was made:

"A. . . .

. . . At no time during 1955 was Hudson Bay led to believe that Felling were willing to revert to higher zinc oxide prices."

(Hearing, p. 190)

It is not clear what information Hudson Bay would have found necessary for such a belief. However, on January 12, 1955, Mr. Ritchie of ZOCO wrote to Mr. Buchanan of Hudson Bay informing him of the withdrawal of Canadian Felling from the market in the following terms:

" . . .

Pigment and Chemical with their Fellings Oxide appear to have withdrawn from the market and are not quoting to any one. . . .

. . . "

(Serials 770-2)

Canadian Felling remained out of the market, except for the acceptance of a few orders, from January 5, 1955 to April 6, 1955. The only construction which can be placed on such action is that Canadian Felling was not willing at that time to meet competitive prices and was not engaging in a price war.

23. With Canadian Felling out of the market during the first quarter of 1955, ZOCO's attention was directed chiefly to Durham Industries. On January 8, 1955 Durham Industries was formally offered for sale to ZOCO. The initial terms proposed for the sale were not acceptable to ZOCO. The latter was prepared to carry on the price war with the assistance of Hudson Bay until the other producers were eliminated. This objective was expressed in the following terms

in a letter of February 22, 1955 from Mr. Fichet of ZOCO to Mr. Buchanan of Hudson Bay:

" . . .

. . . In my candid opinion our aim should be to have these 2 fellows thoroughly disgusted, then propose a merger of the 3 companies at terms bad enough to discourage any other English company to establish a Canadian subsidiary. From what we know it should not be too far away - Of course it is difficult for me to fix a date; but I think it would be too bad to have made this effort and give up without any result. As far as we are concerned I am prepared to sustain further losses if this can clarify the situation, i.e. eliminate the other competitors. . . .

. . .

(Serials 410-3)

By May, 1955 Mr. Fichet of ZOCO had decided that if Durham Industries could be purchased on his terms and if half of the tonnage produced by the latter could be retained the investment would be a profitable one for ZOCO. On June 6, 1955 Durham Industries was purchased by ZOCO at a price of \$205,000 plus or minus any difference in the balance sheet of the former as between December 31, 1954 and the date of purchase of the shares. The net amount finally paid by ZOCO for the shares of Durham Industries appears to have been \$175,422.96. It has already been noted that ZOCO had sufficient capacity of its own to supply the entire Canadian market. The following reasons were given by Mr. Therrien of ZOCO for the purchase of Durham Industries:

- (a) As the ZOCO factory is in rented premises for which a lease is not available after 1960, the acquisition of Durham Industries provided properties large enough to accommodate the operations of ZOCO as well as those of Durham Industries.
- (b) As the manufacturing process used by Durham Industries differs from that of ZOCO, the acquisition provides ZOCO with another type of zinc oxide to add to its line.

24. When Durham Industries was eliminated as a competitor ZOCO continued the price war with the objective of eliminating Canadian Felling, and Hudson Bay continued to give ZOCO the special price

of one cent per pound below the price of Prime Western zinc on its purchases of zinc. Beginning in May, 1955 Hudson Bay discontinued casting Special brand zinc and supplied ZOCO from the normal casting of Electrolytic zinc. ZOCO arranged for a representative to call on the parent company in England of Canadian Felling to tell them that the price war would be more severe with the removal of Durham Industries as an independent producer. Felling, England were to be told that the price war would continue until they ceased business in Canada ("la guerre de prix durerait jusqu'à ce [que] eux, Felling's, abandonnent la partie. . . .") (Serials 141-2).

On April 5, 1955, ZOCO increased its price of zinc oxide to 12.00¢ per pound when the price of zinc advanced by 1/2¢ per pound. Canadian Felling re-entered the market with the same price and apparently also reinstated a cash discount of 1 per cent which had formed a feature of its terms of sale when it commenced business but which it had not made part of its terms of sale on the orders which it accepted between January and March. On June 6, 1955 ZOCO announced a reduction of 1/4¢ per pound in the price of zinc oxide and Mr. Fichet stated in correspondence that this was an answer to the cash discount of Canadian Felling. The latter adjusted its prices to the level of ZOCO and discontinued its cash discount. The prompt payment of accounts, which this discount would have secured, would have assisted the company in view of its shortness of working capital.

25. ZOCO continued the price war through 1955 and Hudson Bay continued to supply High Grade quality zinc to ZOCO at a price one cent below the prevailing price of Prime Western zinc. ZOCO arranged for another call to be made on Felling, England in an effort to persuade them to give up their Canadian subsidiary on terms acceptable to ZOCO. The management of Canadian Felling was opposed to a merger with ZOCO and Canadian Felling continued in business with great financial difficulty, selling its products at unprofitable prices in competition with ZOCO. Although Mr. Fichet of ZOCO continued to hope for some time that Canadian Felling would disappear or could be purchased by ZOCO on the latter's terms the price war did not lead to this result in 1955.

In September, 1955 and January, 1956 the price of zinc advanced by 1/2¢ per pound on each occasion, and ZOCO increased its prices by 1/2¢ contemporaneously. Each of these increases in the price of zinc oxide was followed by Canadian Felling. On February 15, 1956 Canadian Felling issued a price list with prices increased by 1 1/2¢ per pound effective February 20, 1956 and when the new prices were put into effect they were followed by ZOCO and Durham Industries. These events may be taken as marking the end of the price war which, according to the evidence of Mr. Therrien of ZOCO, concluded without agreement or understanding between Canadian Felling and ZOCO. Thereupon Hudson Bay withdrew the price allowance to ZOCO of one cent per

pound below the price of Prime Western and reverted to the previous practice of supplying Electrolytic zinc to ZOCO at the price of Prime Western. Similar terms have also been extended to Durham Industries by Hudson Bay and the former is purchasing zinc from Hudson Bay.

26. It is the conclusion of the Commission that the objective of ZOCO in initiating a price war was not for the purpose of engaging in reasonable competition with Durham Industries and Canadian Felling but was with the object of eliminating one or both competitors. The loss in profits which ZOCO would experience in selling at extremely low prices it hoped it would recoup if the objective was attained, as prices would be raised to a more profitable level after the disappearance of competitors. ZOCO entered into this economic warfare with large resources of working capital which it had accumulated during years of profitable operations whereas its competitors had very limited resources in their own names. Although the latter were owned by parent companies in England apparently of substantial size, they were unwilling or unable because of exchange controls to provide capital to help their subsidiaries in a price war. In the case of one competitor, Durham Industries, the parent company had been seeking unsuccessfully for a considerable period prior to the outbreak of the price war to find a purchaser for its Canadian subsidiary.

It is the opinion of the Commission that ZOCO, with the assistance of Hudson Bay, by engaging in a price war endeavoured to monopolize the manufacture of zinc oxide in Canada and to dissuade any other person from establishing a zinc oxide plant in this country. That the objective was not wholly accomplished, in that Canadian Felling has remained an active producer, does not mean that the effects have been limited to the acquisition of Durham Industries by ZOCO. The fact that the price was pursued so relentlessly for more than a year may be expected to be taken into account not only by the other Canadian producer but by any other concern which may have contemplated entering the Canadian market or may consider doing so in the future. It is scarcely necessary for the Commission to say that it does not regard consequences of this kind as desirable in the public interest or as part of normal competitive behaviour.

27. The large financial resources which ZOCO had when it engaged in a price war with its financially-handicapped competitors were greatly strengthened by the assistance which was given by Hudson Bay in supplying ZOCO with high quality zinc at a price one cent below the prevailing price of lower quality Prime Western zinc. ZOCO was thus able to secure a profit on its operations during the period of the price war in 1955, whereas Canadian Felling seriously depleted its capital and Durham Industries, although under ZOCO's ownership for more than half the year, also had a large loss. Hudson Bay's willingness to assist ZOCO in eliminating one or both of its competitors was influenced by the fact that ZOCO was Hudson Bay's only customer in the

zinc oxide industry in Canada and that it provided an outlet for about one-third of Hudson Bay's domestic sales. Hudson Bay did not wish to have the tonnage it supplied to ZOCO affected by the activities of other producers of zinc oxide because it usually obtained a higher net return on sales of zinc in Canada than on sales of zinc in the United Kingdom, an alternative market. The relative position in 1955 was stated by Mr. Buchanan in evidence to the Commission as follows:

"Q. What was the price at which you were selling ZOCO at that time ?

A. That was in --

Q. That would be 1955 when you granted a special price concession.

A. That was one cent below Prime Western price. As far as Hudson Bay was concerned, the zinc market in 1955 was such in Canada and the United Kingdom that any zinc actually sold to ZOCO at one cent below Prime Western gave a higher return than that obtainable in the United Kingdom.

Q. Do you mean that at the time you gave this special price concession to ZOCO in January 1955 of one cent below Prime Western, at that time the zinc market in England was still lower ?

A. That is right. "

(Hearing, p. 192)

The fact that for lengthy periods producers of zinc oxide in the United Kingdom have been able to purchase zinc produced in Canada at lower prices than those charged Canadian producers by zinc refiners in Canada has made difficult the position of Canadian producers of zinc oxide, not only in the domestic market but in export trade as well. The confidential pricing arrangements which Hudson Bay made with ZOCO to overcome to some extent the disparity between costs of zinc in Canada and in the United Kingdom indicate the arbitrary nature of such adjustments which would be unnecessary if Canadian zinc refiners quoted Canadian processors equivalent prices and terms to those quoted to processors in the United Kingdom.

28. In explaining the policy of Hudson Bay in giving a price concession to a customer, Mr. Weber of that company gave the following evidence:

"A. It has a sort of a -- within the industry I am speaking -- no industry likes what we call a price cutter. However, everybody has to meet certain situations, and you do it so you can't be openly accused of cutting prices on what might be termed in the industry as standard or regular established brands. For example, on special high grade it will have to call for a very special situation before we would cut a price, and there again if you cut a price you have to cut that price for everybody within that particular industry. If it is the Brass people you are cutting prices it is for them; if it is the oxide people, it is for them; if it is for the die casters then you have to name it for all of them. In other words, our policy was never to do for one particular customer what we wouldn't do for another in that industry.

Q. Do you yourself regard this business of producing a special brand as cutting prices?

A. I did not regard it as unethical, but it was a way of reducing prices to meet a certain situation, yes, because we were give leeway in the quality that we furnished."

(Evidence, p. 71)

The price concessions which Hudson Bay gave to ZOCO were not offered to either of the other zinc oxide producers in Canada until Durham Industries was acquired by ZOCO. Some time after that acquisition Hudson Bay began supplying zinc to Durham Industries on the same terms as to ZOCO. It is clear that the supply of high quality zinc to ZOCO at a price lower than that of Prime Western zinc was intended by Hudson Bay to be discriminatory in that it gave ZOCO a considerable competitive advantage over Durham Industries and Canadian Felling, who were buying zinc at the prevailing market price.

The evidence does not establish what significance there would have been for Durham Industries and Canadian Felling if they had been able to buy Hudson Bay zinc on the terms allowed ZOCO in periods other than that of the price war. That zinc with a low lead content would be important in terms of cost even with the process used by Durham Industries is indicated by a report of a meeting between an official of Durham Industries and an official of Cominco on or about March 15, 1955, in which it is stated that the latter company offered, if necessary, to select Prime Western zinc so that Durham was supplied with only the lowest lead content material (Serials 603-4).

29. The policy of Canadian zinc producers in selling zinc metal to users in Canada at, in general, the prices prevailing in the United States has meant that the net return to Canadian refiners has been higher from domestic sales than from export sales because of the duty which is applicable on shipments to the United States. As has already been indicated, the difference is usually even greater in the case of sales to European countries. In other words, the net refinery prices charged users of zinc metal in Canada are generally greater than the net refinery prices charged users in other countries. This situation is brought about by the absence of active price competition between Canadian producers of zinc metal in making sales in Canada. In the case of producers of zinc oxide, whose product must compete with duty-free oxide from the United Kingdom, the pricing policy of Canadian zinc refiners has been a matter of serious disadvantage. It would appear that other users of zinc metal would also find the pricing policy of Canadian refiners of some disadvantage when competing with manufacturers in other countries. To the extent that the pricing of zinc metal increases the cost of products embodying it above the level which might otherwise prevail, the Canadian public would also be affected disadvantageously. These circumstances suggest that an examination of the effect of the Canadian tariff on the pricing policy of refiners of zinc in Canada might be considered.

2. Recommendations

- (a) That a court order should be sought to restrain Zinc Oxide Company of Canada Limited from arranging for or accepting any price concession, allowance or other advantage with respect to the price or quality of zinc which is not offered by the supplier to other producers of zinc oxide in Canada.
- (b) That a court order should be sought to restrain Hudson Bay Mining and Smelting Company Limited from offering or granting any concession, allowance or other advantage with respect to the price or quality of zinc to any producer of zinc oxide in Canada which is not offered on the same terms and conditions to other producers of zinc oxide in Canada or to any person or firm seeking to produce zinc oxide in Canada.
- (c) That a court order should be sought to restrain Hudson Bay Mining and Smelting Company Limited from offering or selling zinc to producers of zinc oxide in Canada at prices higher, with due regard to transportation costs, than the prices at which the same grades of zinc are sold by Hudson Bay Mining and Smelting Company Limited in the United Kingdom.

(d) That consideration be given to the removal of the customs duties on refined zinc.

(Sgd.) C. R. Smith

Chairman

(Sgd.) A. S. Whiteley

Member

Ottawa,
July 3, 1958

APPENDIX A

Schedule 1

Brands of Zinc Oxide Manufactured by Zinc Oxide Company of Canada Limited

1. Blue Seal

- Produced from High Grade zinc by French process; used in paint and rubber industry; low lead content, .005-.008 per cent; large particle size - averaging .38 microns; an acicular oxide similar to that produced by American process.
- Principal product of ZOCO comprising more than 2/3 of production; used as base for pricing other products.

2. Red Seal

- Produced as above from High Grade and Prime Western zincs; has higher lead content than Blue Seal.
- Second most important ZOCO product. Same price as Blue Seal: Previous to March 4, 1953, sold .25 cents per lb. below the price of Blue Seal.

3. 35% Leaded

- Produced by combining zinc oxide with basic lead sulphate in proportion 65 per cent zinc oxide; 35 per cent basic lead sulphate.
- Of considerable importance in production 1952-53-54; minor compared with Blue Seal. Price depends on cost of two components: premium normally .75 cents to 1.50 cents per lb. above zinc oxide base price.

4. U.S.P. - United States Pharmaceutical

- Fluffy oxide: apparently a certain amount of this grade of oxide is produced during regular manufacture of Blue Seal. High purity as to lead content.

- Minor product: premium of 2.50 cents to 3.00 cents per lb. above zinc oxide base price.

5. Other Grades

- 5 per cent Leaded; 50 per cent Leaded; Pigment 10 (a rubber grade); Pigment 69; C.P. (Canadian Pharmaceutical?)
- Minor amounts of each of these may be produced in any year apparently depending on orders received.
- Price of 5 per cent leaded normally .40 cents to .50 cents below zinc oxide base price: considerable variation noted. Price of 50 per cent leaded usually at a considerable premium over zinc oxide base price.

Note: Based on data available prior to June, 1956.

Source: Statement of Evidence. Based on Serials 462-7, 480-4, 1569 and 711.

Schedule 2

Brands of Zinc Oxide Manufactured by
Durham Industries (Canada) Limited

Durham Industries in their French process retort method use principally Prime Western zinc for all their rubber and paint grades: use Special High Grade zinc for pharmaceutical grades: also able to use zinc hard spelter or dross in manufacture of some oxides where certain impurities are of no importance.

1.. Red Seal

- Paint grade; untreated; similar to S.R.Q. but slightly higher lead content, .12-.20 per cent; standard particle size, average .25 microns: EXTROX Red Seal - surface treated, standard particle size: SUPROX Red Seal - surface treated, fine particled.
- Price: Along with S.R.Q. used as base for pricing. Varieties of Red Seal carry no premium over zinc oxide base price.

2. White Seal*

- Paint grade; untreated; lead content .05-.10 per cent.
- Price: premium of .25 cents per lb. over zinc oxide base price.

3. Gold Seal

- Paint grade; untreated; standard particle size; lead content .03 - .08 per cent. MICROX Gold Seal - fine particled Gold Seal.
- Price: premium of .25 cents per lb. over zinc oxide base price.

* The price list of Durham Industries (Canada) Limited dated July 12, 1956 has the following note: "Please note that the 'LEAD-FREE' grade will meet the specifications of the following grades, formerly known as 'WHITE SEAL; GOLD SEAL; LOLED AND NOLED', AT NO EXTRA COST."

4. S.R.Q. (Standard Rubber)

- Rubber grade; untreated; standard particle size; lead content .08-.12 per cent. MICROX S.R.Q. - fine particled. DECELOX S.R.Q. - Surface treated for slow cure rubber.
- Price: no premium over zinc oxide base price.

5. Loled

- Rubber grade; untreated; lead content .04-.08 per cent.
- Price: premium of .25 cents per lb. over zinc oxide base price.

6. Noled

- Rubber grade; untreated; standard particle size; lead content .005-.01 per cent. MICROX Noled - fine particled.
- Price: premium of .50 cents per lb. over zinc oxide base price.

7. Ultrox

- Large particled oxide.
- Price: no premium over base price.

8. B.P. (British Pharmaceutical)

- Pharmaceutical grades: lead content .005 per cent.
- Price: B.P. Standard - premium of 2.00 cents per lb. over base price: B.P. Fluffy - premium of 3.50 cents per lb. over base price: B.P. Extra Fluffy - premium of 4.00 cents per lb. over base price.

9. Ledox

- 17 per cent or 35 per cent leaded zinc oxide; produced on order.

- Price: Usually at a premium of .70 cents to 1.20 cents per lb. over base price; depends on cost of components.

Note: Based on data available prior to June, 1956. Designations and price premiums for certain oxides have been altered subsequently. See the company's July 12, 1956 price list.

Source: Statement of Evidence. Based principally on Serials 640, 501, 502, 514, 516 and 535.

Schedule 3

Brands of Zinc Oxide Manufactured by
Canadian Felling Zinc Oxide Limited

Canadian Felling produces "Felzo" brands of zinc oxide by the French process using crucibles. It uses principally Prime Western zinc and zinc scrap.

1. D-4

- Standard paint grade; lead content .20 per cent maximum; particle size, average .30 microns corresponds to Durham Red Seal grade.
- Price: Used as base for pricing along with F.A.P.

2. F.A.P.

- Standard rubber grade; lead content .12 per cent maximum; particle size, average .28 microns.
- Price: base price.

3. R.Q.A.

- Rubber grade; low lead content .03 per cent maximum; particle size, average .28 microns..
- Price: base price.

4. R.Q.F.

- Rubber grade, fine particle: similar to 632 Grade.
- Price: base price.

5. 632

- Fine paint grade: low lead content, .05 per cent maximum; fine particle size; average .17 microns.

- Price: premium has varied between 1.00 cents and 1.25 cents per lb. above base price.

6. B.P.

- Pharmaceutical grade to British and U.S. standards.
- Price: premium 1.75 cents to 2.00 cents per lb. above base price.

7. 216

- Lead free zinc oxide, comparable to Durham Noled and ZOCO Blue Seal as to lead.
- Price: base price.

8. 35% Leaded

- Blended with lead sulphite to proportions; 65 per cent zinc oxide, 35 per cent lead sulphate. Comparable to other producers' leaded oxide.
- Price: premium .75 cents to 1.35 cents per lb. Depends to some extent on cost of components.

9. 258

- Oxide made from die cast zinc scrap or slabs: lead content, .04 per cent maximum; other impurities in minor amounts.
- Price: Probably base price or below.

10. 852

- Oxide made from 50 per cent die cast scrap and 50 per cent zinc clippings: meets Firestone Pigment 10 standards: lead content, .02 per cent maximum; other impurities in minor amounts.
- Price: now same as base price: has been as much as 1.15 cents per lb. below base price.

Note: Based on available data prior to June, 1956.

Source: Statement of Evidence. Based on Serials 1639-40, 1663-71.

Schedule 4

Calculation of Margins Over Raw Material Costs
in the Zinc Oxide Industry

EXTRACT FROM STATEMENT OF EVIDENCE, p. 228

Zinc Oxide is produced by the contact of vapourized zinc metal with air. Depending on the process used, a given volume of zinc metal on the average can be converted into a certain volume of zinc oxide: e.g., 100 lbs. of zinc according to the Cornillat French process using rotary kilns, on the average can be converted to a little over 123 lbs. of zinc oxide. The conversion rates of virgin zinc metal to zinc oxide for the three Canadian producers that have been used in the calculation of margins over raw material costs discussed above, pages 44 to 47 inclusive,* are as follows:

<u>Company</u>	<u>Zinc to Zinc Oxide in pounds</u>		<u>Conversion Rate Per Cent</u>
	<u>A</u>	<u>B</u>	
ZOCO	100 to 123	81 to 100	123
Durham Industries	100 to 120	83 to 100	120
Canadian Felling	100 to 117	86 to 100	117

These rates approximate those either experienced by the respective producers or used in calculations made by them at some time and therefore presumed to be representative of such experience (Serial #1758 for Canadian Felling; #785, #290, #291 to #302 inclusive, #304 and #317 to #327 inclusive for ZOCO; and #519, #527 and #574 for Durham Industries). Average conversion rates of secondary zinc metal to zinc oxide are not available. It should be noted that ZOCO's rate is based on the conversion primarily of High Grade zinc to zinc oxide. The conversion rates for Durham Industries and Canadian Felling are based primarily on the conversion of Prime Western zinc to zinc oxide. Canadian Felling used a certain amount of secondary metal and it would be expected that the Company's yield would more closely approximate that of Durham Industries if Prime Western zinc were used exclusively.

Unit metal costs in zinc oxide manufacture can be estimated by using the average conversion rates above. The value of the metal in one lb. of zinc oxide produced by ZOCO, for example, would be 100/123 or 81 per cent of the cost of one lb. of zinc. Thus if zinc

* Schedules 5 and 6 in this report.

costs 13.50 cents per lb., the unit metal cost for zinc oxide using ZOCO's conversion rate would be $(81/100 \times 13.50 \text{ cents})$ or 10.94 cents per lb.; using Durham Industries' conversion rate, 11.20 cents per lb.; and using Canadian Felling's conversion rate, 11.61 cents per lb.

Margins over metal costs or the spreads between unit zinc metal costs and unit zinc oxide prices, as illustrated in Table 8 in the text, page 45 above,* are estimated by deducting the unit metal costs from the unit selling prices for zinc oxide. For example, on November 15, 1950, when ZOCO's Blue Seal zinc oxide was selling at 18.55 cents per lb. and unit metal costs, based on a zinc metal price of 18.95 cents per lb., were 15.41 cents per lb., the margin over raw material costs would have amounted to 3.14 cents per lb.

* Table IX in text of this report.

Schedule 5

Unit Costs, Zinc Oxide Industry

EXTRACT FROM STATEMENT OF EVIDENCE, pp. 42-4

126. Durham Industries' production capacity in Montreal is 10,000 tons annually. It was not until it had established its Montreal business in 1950 that the Company earned an operating profit on its chemical manufacturing division's activities (its zinc oxide production) as shown in its financial statements. This was its fourth year of operation and the first year in which production and sales exceeded 3,500 tons. It appears that profitable operations were also conducted in 1951, 1953 and 1954 (Serial #254, #643 and #644 and Company balance sheets): losses were incurred in 1952, 1955 and 1956 (Serial #254 and 1955 and 1956 profit and loss statements). It should also be noted that provision for depreciation of plant and equipment was not made in the years 1949 to 1952 inclusive or in 1955 or 1956 (see Company's 1955 and 1956 balance sheets). Therefore, the operating results of these years should be regarded in the light of this fact. The production and sales record for the Company (see Table VII, Statistical Appendix)* shows that in the four apparently profitable years production and sales exceeded 3,500 tons. This record suggests that output and sales at least at this level annually are necessary for Durham Industries with its known production capacity and investment in order not to operate at a loss.

127. A complete analysis of Durham Industries' unit processing costs and selling and administration expenses is not possible on the basis of the information at present available. Nevertheless, a rough estimate of the level of these costs may be obtained from information in the Company's financial statements, in the returns made by the Company to the Director, and from documents Serial #639 and #641. Unit processing costs, exclusive of metal costs, in 1949 on production of 2,948 tons may be estimated at 2.08 cents per lb.; in 1950 on production of 5,131 tons, at 1.32 cents per lb.; in 1955 on production of 3,021 tons, at 2.22 cents per lb.; and in 1956 on production of 2,254 tons, at 2.01 cents per lb. Selling and administration expenses may be estimated in 1949 on sales of 2,913 tons, at 1.79 cents per lb.; in 1950 on sales of 5,549 tons, at about 1.62 cents per lb.; in 1955 on sales of 3,044 tons, at 2.07 cents per lb.; and in 1956 on sales of 2,407 tons, at 1.57 cents per lb. The totals for each of the four years respectively are 3.87 cents, 2.94 cents, 4.29 cents and 3.58 cents per lb. It will be recalled that 1950 was profitable year while 1949, 1955 and 1956 were not.

128. There is an analysis of unit costs prepared by Durham Industries (Serial #639) for each month in 1954 except for selling expenses in December. This list does not include delivery freight costs. Inspection of the production figures in this table shows that output exceeded 300 tons per month or about one-third capacity, the volume suggested above as necessary for Durham Industries to operate profitably, in only eight months. An arithmetic average of unit costs for these eight months yields processing costs ("works costs") of 1.75 cents per lb., administration costs of 0.71 cents per lb. and selling expenses less freight costs of 0.17 cents per lb., for a total of 2.63 cents per lb. Data are not available to compute a figure for 1954 for unit freight but from the Company's financial statements it can be estimated that delivery freight costs for Durham Industries in 1956 averaged 0.52 cents per lb.: delivery freight expenditures have been assumed to have been made in respect of zinc oxide only. It should be remembered that these estimates of unit costs for processing probably include oxide produced by both the French and American processes. However, it is questionable whether the proportion of American processed oxide was large enough to make any significant difference in the unit values. In the Durham Industries' documents there is an undated estimate of processing costs for the American process (Serial #641). These costs appear to have been higher than those for the French process.

129. From these analyses of Durham Industries' costs it is difficult to conclude precisely what figures would be representative. It would appear, however, that a rough estimate of the unit processing, administration and selling costs for this Company's plant operating at from one-third to one-half its production capacity would be from 3.00 to 4.00 cents per lb.

130. Canadian Felling's production capacity in Milton has been placed at 3,500 tons annually with fixed assets in land, buildings, machinery and equipment having an original capital cost of about \$93,900 in 1955 (see Company's 1955 Balance Sheet). It was not until 1956, when production and sales exceeded one-third of the plant's capacity, that the Company earned a net profit on its operations. In connection with the entry of Canadian Felling into the Canadian zinc oxide industry it should be noted that the Company's present plant manager and secretary, Glyn Roberts, was formerly manager of Durham Industries' Chemical Division before joining the staff of Pigment and Chemical (Serial #1563 and #1564). He is reported to have advised W. S. Dickson in the preparation of estimates of production costs for Canadian Felling's plant at Milton. It may be assumed that Durham Industries' cost experience at Montreal would be known to Mr. Roberts.

131. In a memorandum to R. W. Dickson, dated December 1st and 3rd, 1954, there is an analysis, presumably by Mr. Roberts, of production costs of zinc oxide (Serial #1749 and #1750). The data in these analyses appear to be estimated rather than actual costs. Two of the estimates are of particular interest: they were for levels of production of 120 tons and 400 tons per month, with a conversion rate of 100 lbs. of zinc to 120 lbs. of zinc oxide (120 per cent). These two estimates show unit processing, selling and administration costs totalling 3.58 cents per lb. at a production of 120 tons per month or approximately 40 per cent capacity, and 2.48 cents per lb. at 400 tons per month.* It should be pointed out here that the Company did not achieve as good a conversion rate as shown but rather averaged 100 lbs. of zinc to 117 lbs. of zinc oxide (117 per cent) for all types of zinc used in 1954 (Serial #1758). This would mainly affect the metal cost estimate. In these estimates process wage costs and administration charges were the principal variables being set at 1.20 and .60 cents per lb. respectively on a monthly output of 120 tons, and at .50 and .20 cents per lb. on a monthly output of 400 tons. In both estimates selling expenses, including freight out on sales, totalled .80 cents per lb.

132. In February 1955, R. W. Johnson sent Glyn Roberts a memo (Serials #1660 to #1662 inclusive) containing recent cost estimates. One comparison (Serial #1662) shows two sets of data noted respectively as "Original Estimate" and as "Suggested as actual". These costs were computed on a presumed production of 100 tons per month. Unit processing costs and unit selling and administrative expenses totalled 2.74 cents per lb. in the "Original Estimate" and 2.40 cents per lb. in the "Suggested as actual" estimate. Administration expenses were set at .49 cents per lb. in both estimates and selling expenses at .70 cents and .63 cents per lb. respectively. In comments on these estimates (Serial #1664) Mr. Roberts noted that they did not include provision for "unseen costs such as overhead charges for bookkeeping etc.".

133. An analysis of the 1955 and 1956 Profit and Loss Statements submitted in returns to the Director by Canadian Felling shows that for these two years unit processing costs, exclusive of metal and other raw material costs, may be estimated to have been 2.22 cents per lb. on production of 963 tons in 1955, and 2.48 cents per lb. on production of 1,570 tons in 1956. Unit selling and administration costs (including delivery charges) may be estimated to have been 1.11 cents per lb. on sales of 937 tons in 1955 and 1.09 cents per lb. on sales of 1,585 tons in 1956. Totals for each of these two years

* A production rate of 400 tons per month would mean a capacity of some 4,800 tons per year. Canadian Felling's annual capacity has been noted above to be 3,500 tons.

respectively are 3.33 cents and 3.57 cents per lb. It is noted that unit delivery charges which were estimated above, p. 38* to be .38 cents per lb. in 1955, were lower in 1956 at .31 cents per lb.

134. From this analysis of Canadian Felling's costs, one may perhaps conclude that a figure between 3.0 cents and 3.75 cents per lb. would be a rough estimate of the unit processing, administration and selling costs for this Company operating at one-third its production capacity.

135. At this point it is useful to examine the available information on ZOCO's processing, selling and administration costs for the purpose of comparison with the analysis above of Durham Industries' and Canadian Felling's costs. In doing so, one must bear in mind that ZOCO uses a rotary kiln to process High Grade zinc metal rather than crucibles using Prime Western or secondary metal.

136. From ZOCO documents (Serial #190, #205, #217) and information supplied the Director, unit costs of processing, administration and selling were computed for the years 1949, 1951, 1952 and 1953; data for 1950, 1954, 1955 and 1956 are not complete. These unit costs amounted to 2.68 cents, 1.92 cents, 2.46 cents and 2.21 cents per lb. for the four years respectively. In 1949 production was at 21 per cent of capacity and in 1951, production was at 35 per cent capacity, these being the highest and lowest percentages for the four years in question.

137. The analysis in this section of the cost factors involved would suggest that the unit costs of processing, administration and sales for ZOCO ran lower than for the other two producers. On the other hand, both Canadian Felling and Durham Industries have been in a position to use grades of zinc regularly selling at prices considerably below those customarily quoted for the High Grade zinc used by ZOCO.

* Of the Statement of Evidence.

Schedule 6

Margins Over Raw Material Costs, Zinc Oxide Industry

EXTRACT FROM STATEMENT OF EVIDENCE, pp. 44, 46-7

138. At the beginning of this sub-section it was stated that margins over raw material costs or spreads between unit metal costs and zinc oxide selling prices for the different processes could be readily computed if the zinc metal and zinc oxide prices were known as well as the conversion rates of zinc to zinc oxide. Sample calculations of these are shown in Schedule II, p.228.* With the procedures set out there for the three zinc oxide producers, and list prices for zinc and zinc oxide known to be in effect, the spreads between unit metal costs and unit zinc oxide prices for the three producers at the listed dates would presumably have been as shown in Table 8.**

139. As a brief explanation of Table 8, it is pointed out that the method of showing the spread between unit metal costs and unit selling prices for zinc oxide (margins over refined zinc metal costs) for specific days was used rather than comparing average unit metal costs with average unit prices because data for the latter type analyses were not available. Furthermore the dates have been chosen to represent periods following pertinent zinc or zinc oxide price changes when prices had stabilized sufficiently to show their effects on the margins over unit metal costs. It should be noted also that ZOCO's principal oxide, Blue Seal, up until March 4, 1953, was selling .25 cents per lb. more than the price for Durham Industries' principal grade. In the Table, November 15, 1950, represents a period when (a) the differential between High Grade and Prime Western zinc prices was .75 cents per lb. and (b) zinc oxide prices were .10 cents to .35 cents per lb. higher than Prime Western zinc prices. The Table shows that the estimated spread between unit metal costs and unit zinc oxide selling prices was the same for ZOCC and Durham. ZOCO's higher metal costs were offset by its somewhat better rate of conversion of zinc to zinc oxide and its higher zinc oxide price. January 15, 1951, represents a period when (a) the

Schedule 4, Appendix A in this report.

Table IX in text of this report.

price differential between High Grade and Prime Western zincs had increased to 1.00 cents per lb., and (b) zinc oxide prices were still running from .10 cents to .35 cents per lb. higher than Prime Western zinc prices. The Table suggests that the higher zinc differential meant lower margins over raw material costs for ZOCO at a time when Durham Industries' margin was increasing. January 15, 1952, represents a period (a) when the price differential between High Grade and Prime Western zinc had increased to 1.35 cents per lb., where it remained for all relevant times, and (b) when zinc oxide prices were running .50 cents to .75 cents per lb. above Prime Western zinc prices, and prior to Hudson Bay's first zinc price concession to ZOCO beginning in February 1952. The Table suggests that margins for Durham Industries had increased over those the year previous and that ZOCO's margin had also risen, but less than that of Durham's because of the higher differential between High Grade and Prime Western zinc prices. February 15, 1952, represents a period (a) immediately following the beginning of the price concession from Hudson Bay to ZOCO and (b) when the prices of zinc oxide were running from .05 cents to .30 cents per lb. above the price of Prime Western zinc. Column A suggests that ZOCO's margin would have declined as did Durham Industries', following the changed relationship in zinc oxide and zinc prices had it not been for the zinc price concession, the effect of which is brought out in Column B. November 30, 1952, represents a period when the zinc oxide-zinc price relationship had improved with zinc oxide prices running 2.50 cents to 2.75 cents per lb. above Prime Western zinc prices. This situation obtained despite a reduction in the price of both commodities. The spread between unit metal costs and unit zinc oxide prices for both companies appears to have increased markedly. May 15, 1953, represents a period when (a) ZOCO was receiving a larger price concession from Hudson Bay, (b) the premium of .25 cents per lb. on ZOCO's Blue Seal oxide was withdrawn for all relevant times and the oxide was selling at the same price as Durham Industries' principal grades, and (c) zinc and zinc oxide prices were falling. The Table suggests that the margin over metal costs for Durham Industries declined. A comparison of Column A and Column B suggests that ZOCO's margin would have declined as a result of lower zinc oxide prices generally and a lower comparative price for Blue Seal oxide, had not this potential reduction been largely offset by the extra price concession from Hudson Bay. June 15, 1954, represents a period when zinc prices had been rising somewhat more rapidly than zinc oxide prices. The Table suggests a further decline in spreads between unit metal costs and unit zinc oxide prices for both producers. September 15, 1954, represents a period following the sharp zinc oxide price reduction on September 1, which was maintained despite the rise in zinc prices two days later. Zinc oxide prices were running 1.15 cents per lb. above the price of Prime Western zinc. The Table suggests that margins over raw material costs were considerably

reduced for both ZOCO and Durham Industries. Canadian Felling had begun operations by this time. May 15, 1955 represents a period when (a) prices of all three zinc oxide producers were once more the same after the beginning of the "price war" in January 1955, (b) prices for zinc oxide were the same as the price of Prime Western zinc and (c) ZOCO was receiving a still greater price concession from Hudson Bay. A comparison of Columns A and B suggests that this extra price concession was the reason why margins over raw material costs for ZOCC were only moderately reduced when the reductions for the other producers were comparatively greater. October 15, 1955, represents a period when zinc oxide prices were running .75 cents per lb. below the price of Prime Western zinc following an intensification of the "price war". The Table suggests that the spread between unit metal costs and unit selling costs for oxide was reduced for all three producers, but relatively moreso for Durham Industries and Canadian Felling than for ZOCO. June 5, 1956, represents a period when (a) the zinc oxide "price war" had apparently been terminated, (b) the price of zinc oxides were running .75 cents per lb. above the price of Prime Western zinc, and (c) the extra price concession granted to ZOCO in January 1955 had been withdrawn by Hudson Bay. August 15, 1956, represents a period when the price of zinc oxide was running .85 cents per lb. above the price of Prime Western zinc following an increase in zinc oxide prices.

Schedule 7

Market Prices of Zinc
and List Prices of Zinc Oxide,
Showing Dates of Price Changes

("N.A." means information not available)

Date	Zinc				Zinc Oxide			
	Prime	High	Special	Oxide	ZOCO		Durham	Cdn.
	Western	Grade	High	or	Blue	Red	Red	Felling
	¢/lb.	¢/lb.	Grade	Special	Seal	Seal	Seal	¢/lb.
1950								
Jan. 1	11.00	11.75	12.00	-	N.A.	N.A.	N.A.	-
Jan. 17	10.75	11.50	11.75	-	N.A.	N.A.	N.A.	-
Mar. 14	11.00	11.75	12.00	-	N.A.	N.A.	N.A.	-
Mar. 27	11.25	12.00	12.25	-	N.A.	N.A.	N.A.	-
April 3	11.50	12.25	12.50	-	N.A.	N.A.	13.05	-
April 19	12.00	12.75	13.00	-	N.A.	N.A.	13.45	-
May 1	12.375	13.125	13.375	-	N.A.	N.A.	13.65	-
May 4	12.625	13.375	13.625	-				
May 5					N.A.	N.A.	13.85	-
May 9	13.125	13.875	14.125	-	N.A.	N.A.	14.25	-
May 25	13.75	14.50	14.75	-	N.A.	N.A.	14.75	-
May 29	14.25	15.00	15.25	-				
May 30					N.A.	N.A.	15.15	-
June 5	15.75	16.50	16.75	-				
June 6					N.A.	N.A.	16.25	-
June 12	16.25	17.00	17.25	-	N.A.	N.A.	16.65	-
Sept. 8	19.00	19.75	20.00	-	N.A.	N.A.	18.85	-
Oct. 3	18.35	19.10	19.35	-				
Oct. 5	18.50	19.25	19.50	-				
Oct. 6	18.55	19.30	19.55	-	N.A.	N.A.	18.45	-
Oct. 10	18.50	19.25	19.50	-				
Oct. 23	18.40	19.15	19.40	-				
Nov. 3	18.30	19.05	19.30	-				
Nov. 7	18.20	18.95	19.20	-	18.55	18.30	18.30	-
Nov. 8	18.10	18.85	19.10	-				
Nov. 10	18.20	18.95	19.20	-				
Nov. 30	18.30	19.05	19.30	-				
Dec. 15	18.40	19.15	19.40	-				
Dec. 19					18.70	18.45	18.55	-
Dec. 20	18.55	19.30	19.55	-	18.80	18.55		-

Schedule 7 (continued)

Date	Zinc				Zinc Oxide			
	Prime Western	High Grade	Special High Grade	Oxide or Special	ZOCO		Durham Red Seal	Cdn. Felling
	£/lb.	£/lb.	£/lb.	£/lb.	Blue Seal	Red Seal	£/lb.	£/lb.
1952 (cont'd)								
June 5	15.80	17.15	17.30	16.55				
June 6					17.25	17.00		-
June 9							17.00	-
June 13	15.70	17.05	17.20	16.45				
June 19	14.80	16.15	16.30	15.55	16.20	15.95	15.95	-
June 23	14.70	16.05	16.20	15.45				
July 2	14.60	15.95	16.10	15.35				
July 4	14.50	15.85	16.00	15.25				
July 8	14.60	15.95	16.10	15.35				
July 10	14.70	16.05	16.20	15.45				
July 15	14.60	15.95	16.10	15.35				
July 17	14.70	16.05	16.20	15.45				
July 18	14.60	15.95	16.10	15.35				
July 31	14.50	15.85	16.00	15.25				
Aug. 1	14.60	15.95	16.10	15.35				
Aug. 4	14.50	15.85	16.00	15.25				
Aug. 8	13.00	14.35	14.50	13.75				
Aug. 11	13.10	14.45	14.60	13.85	15.70	15.45		-
Aug. 12	13.50	14.85	15.00	14.25			15.45	-
Sept. 12	14.00	15.35	15.50	14.75				
Sept. 19	13.50	14.85	15.00	14.25				
Sept. 25	13.00	14.35	14.50	13.75				
Oct. 7	13.10	14.45	14.60	13.85				
Oct. 10	13.20	14.55	14.70	13.95				
Oct. 15	13.10	14.45	14.60	13.85				
Oct. 21	13.00	14.35	14.50	13.75				
Oct. 22	13.10	14.45	14.60	13.85				
Oct. 28	12.10	13.45	13.60	12.85				
Oct. 31					15.20	14.95	14.95	-
Nov. 5	12.20	13.55	13.70	12.95				
Nov. 10	12.30	13.65	13.80	13.05				
Nov. 13	12.40	13.75	13.90	13.15				
Nov. 14	12.30	13.65	13.80	13.05				
Nov. 17	12.40	13.75	13.90	13.15				
Nov. 18	12.30	13.65	13.80	13.05				
Nov. 28	12.20	13.55	13.70	12.95				
1953								
Jan. 2	12.70	14.05	14.20	13.45				
Jan. 14	12.20	13.55	13.70	12.95				

Schedule 7 (continued)

Date	Zinc				Zinc Oxide			
	Prime	High	Special	Oxide	ZOCO		Durham	Cdn.
	Western	Grade	High	or	Blue	Red	Red	
	¢/lb.	¢/lb.	Grade	Special	Seal	Seal	Seal	Felling
			¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.
1953 (cont'd)								
Jan. 27	11.70	13.05	13.20	12.45			14.65	-
Jan. 28					14.90	14.65		-
Feb. 4	11.20	12.55	12.70	11.95			14.15	-
Feb. 5					14.40	14.15		-
Feb. 20				11.20				
Mar. 4					Common Price			
					13.50	13.50	13.50	-
Mar. 5	11.00	12.35	12.50	11.00				
April 15	10.75	12.10	12.25	10.75				
April 16	10.50	11.85	12.00	10.50				
April 20					13.10	13.10	13.10	-
Sept. 3	10.25	11.60	11.75	10.25				
Sept. 14	9.75	11.10	11.25	9.75			12.60	-
Sept. 15					12.60	12.60		-
Oct. 21	10.00	11.35	11.50	10.00				
1954								
Jan. 18	9.50	10.85	11.00	9.50				
Mar. 11	9.75	11.10	11.25	9.75				
Mar. 29	10.25	11.60	11.75	10.25				
Mar. 30					12.95	12.95	12.95	-
May 18								12.95
May 26	10.50	11.85	12.00	10.50				
June 2					13.45	13.45		
June 3	11.00	12.35	12.50	11.00				
June 4							13.45	
June 9-24								13.45
Sept. 1					12.65	12.65	12.65	
Sept. 3	11.50	12.85	13.00	11.50				
Sept. 8								12.65
1955								
Jan. 1					12.35	12.35		
Jan. 4				10.50	11.50	11.50		
Jan. 6							11.50	
April 5	12.00	13.35	13.50	11.00	12.00	12.00		
April 6							12.00	12.00
June 6					11.75	11.75		
June 10								11.75
June 13							11.75	

Schedule 7 (continued)

Date	Zinc				Zinc Oxide			
	Prime Western	High Grade	Special High Grade	Oxide or Special	ZOCO		Durham	Cdn. Felling
					Blue Seal	Red Seal	Red Seal	
	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.
1955 (cont'd)								
June 16	12.50	13.85	14.00	11.50				
Sept. 6	13.00	14.35	14.50	12.00				
Sept. 7					12.25	12.25	12.25	
Sept. 20								12.25
1956								
Jan. 6	13.50	14.85	15.00	12.50	12.75	12.75	12.75	
Jan. 9								12.75
Feb. 20								14.25
Feb. 21					14.25	14.25		
Feb. 22							14.25	
Mar. 22				13.50				
May 9				N.A. after this date				
Aug. 1				N.A.	14.35	14.35	14.35	14.35
1957								
Jan. 14	13.50	14.10*	14.50*					
May 6	12.00	12.60	13.00					
May 7					13.30	13.30	13.30	
May 8								13.30
May 15	11.50	12.10	12.50					
June 5	11.00	11.60	12.00					
June 6					13.00	13.00	13.00	13.00
June 20	10.50	11.10	11.50		12.60	12.60	12.60	12.60
July 2	10.00	10.60	11.00		12.20	12.20	12.20	12.20

* "For a number of years there was a premium of 1.35 cents a pound above the Prime Western price for Ordinary High Grade zinc and of 1.5 cents for Special High Grade. These premiums were reduced in Canada on January 14, 1957, to 0.6 cents and one cent a pound respectively." (Department of Mines and Technical Surveys, Zinc in Canada with Comments on World Conditions. (Memorandum Series No. 137, 1958), p. 83)

Sources: Data to August, 1956 prepared from returns and information secured by the Director of Investigation and Research. Data for 1957 from price lists and other information submitted by zinc oxide companies to the Commission.

Schedule 8

United States Prices, Zinc and Zinc Oxide,
1950-57

<u>Date</u>	<u>Zinc</u>	<u>Zinc Oxide</u>
	Prime Western f. o. b. E. St. Louis ¢/lb.	American Process Lead Free ¢/lb.
<u>1950</u>		
January 6	10.00	11.00
17	9.75	11.00
March 14	10.00	11.00
27	10.25	11.00
April 3	10.50	11.00
6	10.50	11.50
19	11.00	11.50
May 1	11.25	11.50
4	11.50	11.50
8	11.50	12.25
9	12.00	12.25
16	12.00	12.75
24	12.50	12.75
29	13.00	12.75
June 2	14.50	12.75
6	14.50	14.00
12	15.00	14.00
July 20	15.00	14.75
September 7	17.50	14.75
12	17.50	16.00
<u>1951</u>		
October 2	19.50	16.00
25	19.50	17.60
<u>1952</u>		
June 2	17.50	17.60
3	17.50	16.60
5	16.00	15.75
18	15.00	15.75
19	15.00	15.25
August 6	13.50	15.25
7	13.50	14.75
11	14.00	14.75
September 12	14.50	14.75
18	14.00	14.75
23	13.50	14.75

Schedule 8 (continued)

<u>Date</u>	<u>Zinc</u>	<u>Zinc Oxide</u>
	Prime Western f. o. b. E. St. Louis ¢/lb.	American Process Lead Free ¢/lb.
<u>1952 (cont'd)</u>		
October 23	12.50	14.75
28	12.50	14.25
<u>1953</u>		
January 2	13.00	14.25
14	12.50	14.25
27	12.00	14.25
February 3	11.50	14.25
9	11.50	14.00
27	11.25	14.00
March 5	11.00	14.00
September 3	10.50	14.00
10	10.50	13.50
11	10.00	13.50
<u>1954</u>		
January 1	10.00	13.50
18	9.50	13.50
February 15	9.25	13.50
March 11	9.75	13.50
29	10.25	13.50
May 26	10.50	13.50
June 3	11.00	13.50
September 3	11.50	13.50
<u>1955</u>		
April 5	12.00	13.50
June 6	12.00	14.00
16	12.50	14.00
September 6	13.00	14.00
<u>1956</u>		
January 6	13.50	14.00
17	13.50	14.50
<u>1957</u>		
May 6	12.00	14.50
15	11.50	14.50
June 5	11.00	14.50
19	10.50	14.50

Schedule 8 (continued)

<u>Date</u>	<u>Zinc</u>	<u>Zinc Oxide</u>
	Prime Western f. o. b. <u>E. St. Louis</u> ¢/lb.	American Process <u>Lead Free</u> ¢/lb.
<u>1957 (cont'd)</u>		
July 2	10.00	14.50

Note: Zinc oxide prices quoted on a delivered basis in carload lots.

Sources: Zinc data for 1950-56 from Serials 2082-96, 816-8; 1957 from The Northern Miner, and zinc oxide data for 1950-53 from Serial 471; 1954-56 from Oil, Paints and Drugs Reporter; 1957 from Journal of Commerce.

APPENDIX B

Table 1

Consumption of Zinc Oxide and Titanium Pigments in the Canadian Paint Industry, 1939, 1945, 1954 and 1956

Pigment	1939			1945			1954			1956		
	Volume tons	Value*		Volume tons	Value*		Volume tons	Value*		Volume tons	Value*	
		Total	Unit		Total	Unit		Total	Unit		Total	Unit
		\$'000	¢/lb.		\$'000	¢/lb.		\$'000	¢/lb.		\$'000	¢/lb.
Zinc Oxide:												
Lead Free	1,574	168	5.3	2,901	434	7.5	2,475	671	13.6	2,601	782	15.0
Leaded	1,994	196	4.9	1,327	228	8.6	679	203	14.9	417	139	16.7
Sub-Totals	3,568	364		4,228	662		3,154	874		3,018	921	
Titanium:												
Titanium Dioxide	928	275	14.8	3,153	1,192	18.9	11,479	5,483	23.9	12,725	6,772	26.6
Extended Pigments	1,616	220	6.8	6,060	901	7.4	13,155	2,529	9.6	14,599	3,073	10.5
Sub-Totals	2,544	495		9,213	2,093		24,634	8,012		27,324	9,845	

* Cost at works

Source: Dominion Bureau of Statistics, The Paints, Varnishes and Lacquers Industry.

Table 2

Regional Distribution of Industries Comprising the
Principal Markets for Zinc Oxide in Canada, 1955

Industry	Ontario			Quebec			Sub-Total			Canada		
	No. of Establish-ments	Gross Value		No. of Establish-ments	Gross Value		Establishments % of Total	Gross Value of Factory Shipments		Total No. of Establish-ments	Total Gross Value of Factory Shipments	
		of Factory Shipments \$'000, 000	% of Total		of Factory Shipments \$'000, 000	% of Total		\$'000, 000	% of Total			
Rubber Products	42	262.0	32	59.8	74	90.2	321.8	99.8	82	322.4		
Paints, Varnishes and Lacquers	65	64.6	35	37.2	100	82.0	101.8	86.9	122	117.1		
Synthetic Textiles	12	*	33	84.4	45	93.7	*	*	48	159.2		
Oilcloth, Linoleum and Coated Fabrics	4	8.2	11	22.9	15	88.2	31.1	99.7	17	31.2		
Miscellaneous Chemical Products	130	109.0	82	96.4	212	81.2	205.4	94.2	261	218.0		

* Information not available.

Sources: Dominion Bureau of Statistics, The Paints, Varnishes and Lacquers Industry, The Rubber Products Industry, Synthetic Textiles and Silk Industry, The Miscellaneous Chemical Products Industry, The Miscellaneous Textile Industries.

Table 3

Production of Zinc Oxide in Canada
by Three Producers, 1945-56

Year	(tons)			Total
	ZOCO	Company Durham Industries	Canadian Felling	
1945	15,150	-	-	15,150
1946	16,500	-	-	16,500
1947	18,000	904	-	18,904
1948	9,600	2,065	-	11,665
1949	4,200	2,948	-	7,148
1950	7,342	5,131	-	12,473
1951	6,900	5,902	-	12,802
1952	4,850	2,994	-	7,844
1953	5,500	4,194	-	9,694
1954	5,800	3,634	253	9,687
1955	6,500	3,021	963	10,484
1956	7,099	2,254	1,570	10,923

Note: No data are available on production in 1945 to 1947 inclusive for Watts Chemical Company or for the small quantities of leaded zinc oxide produced by Cominco as a by-product of its refining processes.

Source: Information supplied by the companies.

Table 4

Distribution of Zinc Oxide Market in Canada Among
Zinc Oxide Producers and Imports, 1945-56

Year	Domestic Market (tons)	Per Cent					
		ZOCO	Durham In- dustries	Canadian Felling	Sub- Total	Imports	Total
1945	10,198	88.6	-	-	88.6	11.4	100
1946	10,046	90.8	-	-	90.8	9.2	100
1947	13,117	79.4	3.8	-	83.2	16.8	100
1948	10,880	61.0	23.1	-	84.1	15.9	100
1949	7,766	48.7	37.2	-	85.9	14.1	100
1950	11,506	43.4	47.0	-	90.4	9.6	100
1951	9,958	52.6	40.7	-	93.3	6.7	100
1952	7,940	52.9	37.9	-	90.8	9.2	100
1953	9,923	50.6	35.5	-	86.1	13.9	100
1954	9,273	53.4	33.9	1.5	88.8	11.2	100
1955	10,249	59.1	23.9	9.1	92.1	7.9	100
1956	11,183	59.8	20.4	14.2	94.4	5.6	100

Sources: Compiled from information supplied by the companies and statistics published by the Dominion Bureau of Statistics in Trade of Canada.

Table 5

Sales of Zinc Oxide by Three
Canadian Producers, 1945-56

(tons)

Year	S a l e s						
	Domestic			Export			Total
	ZOCO	Durham In- dustries	Canadian Felling	ZOCO	Durham In- dustries	Canadian Felling	
1945	9,030	-	-	5,925	-	-	14,955
1946	9,120	-	-	7,130	-	-	16,250
1947	10,420	492	-	7,550	-	-	18,462
1948	6,635	2,513	-	3,095	-	-	12,243
1949	3,780	2,892	-	467	21	-	7,160
1950	4,990	5,409	-	2,320	140	-	12,859
1951	5,240	4,053	-	1,520	1,756	-	12,569
1952	4,200	3,013	-	762	133	-	8,108
1953	5,020	3,521	-	455	349	-	9,345
1954	4,957	3,140	141	884	570	-	9,692
1955	6,060	2,447	937	550	597	-	10,591
1956	6,694	2,275	1,585	406	132	-	11,092

Note; No data are available on sales in 1945 to 1947 inclusive for Watts Chemical Company or for the small quantities of leaded zinc oxide which Cominco may have sold.

Source: Information supplied by the companies.

Table 6

Production and Sales of Zinc Oxide
by Zinc Oxide Company of Canada
Limited, 1945-56

Year	Production		Sales				
	Volume tons	Domestic		Export		Total	
		Volume tons	Value* \$'000	Volume tons	Value** \$'000	Volume tons	Value \$'000
1945	15,150	9,030	1,157	5,925	858	14,955	2,015
1946	16,500	9,120	1,220	7,130	1,385	16,250	2,605
1947	18,000	10,420	2,210	7,500	1,842	17,970	4,052
1948	9,600	6,635	1,686	3,095	765	9,730	2,451
1949	4,200	3,780	970	467	142	4,247	1,112
1950	7,342	4,990	1,460	2,320	602	7,310	2,062
1951	6,900	5,240	2,120	1,520	464	6,760	2,584
1952	4,850	4,200	1,443	762	249	4,962	1,692
1953	5,500	5,020	1,307	455	86	5,475	1,393
1954	5,800	4,957	1,179	884	212	5,841	1,391
1955	6,500	6,060	1,359	550	158	6,610	1,517
1956	7,099	6,694	1,789	406	107	7,100	1,896

* Value f.o.b. cars at factory.

** Value f.o.b. cars at factory plus freight.

Note: Total sales in a given year may exceed production in the same year, the difference being made up from inventory carried over from the previous year.

Source: Information supplied by the company.

Table 7

Production and Sales of Zinc Oxide
by Durham Industries (Canada) Limited,
1947-56

Production		Sales					
Year	Volume tons	Domestic		Export		Total	
		Volume tons	Value* \$'000	Volume tons	Value* \$'000	Volume tons	Value \$'000
1947	904	492	113	-	-	492	113
1948	2,065	2,513	649	-	-	2,513	649
1949	2,948	2,892	769	21	6	2,913	775
1950	5,131	5,409	1,657	140	42	5,549	1,699
1951	5,902	4,053	1,569	1,756	874	5,809	2,443
1952	2,994	3,013	1,061	133	49	3,146	1,110
1953	4,194	3,521	929	349	92	3,870	1,021
1954	3,634	3,140	714	570	138	3,710	852
1955	3,021	2,447	599	597	151	3,044	750
1956	2,254	2,275	615	132	34	2,407	649

* Value f.o.b. cars at factory.

Note: Total sales in a given year may exceed production in the same year, the difference being made up from inventory carried over from the previous year.

Source: Information supplied by the company.

Table 8

Production and Sales of Zinc Oxide
by Canadian Felling Zinc Oxide Limited,
1954-56

Production		Sales					
Year	Volume tons	Domestic		Export		Total	
		Volume tons	Value* \$'000	Volume tons	Value* \$'000	Volume tons	Value \$'000
1954	253	141	32	-	-	141	32
1955	963	937	267	-	-	937	267
1956	1,570	1,585	445	-	-	1,585	445

* Value f.o.b. cars at factory.

Source: Information supplied by the company.

Table 9

Imports of Zinc Oxide into Canada by Origin, *
1945-57

Year	United Kingdom			United States			Other Countries			All Countries		
	Volume tons	Value**		Volume tons	Value**		Volume tons	Value**		Volume tons	Value**	
		total \$	¢/lb.		total \$	¢/lb.		total \$	¢/lb.		total \$	¢/lb.
1945	324	45,400	7.0	844	134,900	8.0	-	-	-	1,168	180,300	7.7
1946	151	24,800	8.2	775	126,100	8.1	-	-	-	926	150,900	8.1
1947	23	6,100	13.3	2,182	471,700	10.8	-	-	-	2,205	477,800	10.8
1948	92	24,100	13.1	1,600	365,000	11.4	40	7,400	9.3	1,732	396,500	11.5
1949	217	54,600	12.6	832	207,900	12.5	45	7,000	7.8	1,094	269,500	12.3
1950	458	118,900	13.0	605	171,500	14.2	44	8,600	9.8	1,107	299,000	13.5
1951	36	10,700	14.9	579	195,200	16.9	50	14,100	14.1	665	220,000	16.5
1952	89	27,800	15.6	638	198,400	15.6	-	-	-	727	226,200	15.6
1953	557	122,100	11.0	825	221,700	13.4	-	-	-	1,382	343,800	12.4
1954	178	38,000	10.7	857	224,100	13.1	-	-	-	1,035	262,100	12.7
1955	118	25,600	10.8	687	183,200	13.3	-	-	-	805	208,800	13.0
1956	32	7,744	12.0	596	167,048	14.0	-	-	-	629	174,792	13.9
1957	47	10,353	10.9	670	186,318	13.9	-	-	-	718	196,671	13.7

* Figures for imports of zinc white. Data for imports of other forms of zinc oxide are not available. Nevertheless it is believed that imports of zinc white comprise the principal imports of zinc oxide into Canada.

** The value of imports does not include any charges for insurance and freight, i.e., foreign market value or f.o.b. cars.

Source: Dominion Bureau of Statistics, Trade of Canada.

Table 10

Average Unit Value of Zinc Oxide
in the Canadian Market, 1945-56

<u>Year</u>	<u>Domestic Sales f.o.b. Plant ¢/lb.</u>	<u>United Kingdom Imports ¢/lb.*</u>	<u>United States Imports ¢/lb.*</u>
1945	6.4	7.0	8.0
1946	6.7	8.2	8.1
1947	10.6	13.3	10.8
1948	12.8	13.1	11.4
1949	13.0	12.6	12.5
1950	15.0	13.0	14.2
1951	19.8	14.9	16.9
1952	17.4	15.6	15.6
1953	13.1	11.0	13.4
1954	11.7	10.7	13.1
1955	11.8	10.8	13.3
1956	13.5	12.0	14.0

* Foreign market value; excludes insurance and freight.

Source: Based on information supplied by the companies and statistics published by Dominion Bureau of Statistics in Trade of Canada.

Table 11

Production of Refined Zinc in Canada,
1948-56

<u>Year</u>	<u>Total Production tons</u>	<u>Production by</u>			
		<u>Hudson Bay</u>		<u>Cominco*</u>	
		<u>tons</u>	<u>%</u>	<u>tons</u>	<u>%</u>
1948	196,575	51,129	26.0	146,378	74.0
1949	206,045	49,174	23.8	157,204	76.2
1950	204,367	48,943	23.9	156,021	76.1
1951	218,578	54,684	25.0	164,513	75.0
1952	222,200	61,783	27.8	161,357	72.2
1953	250,961	65,730	26.2	185,859	73.8
1954	213,810	66,922	31.2	147,776	68.7
1955	257,008	67,355	26.2	190,910	73.8
1956	255,601	63,284	24.8	193,041	75.2

* The following note is appended to the table in the report of the Department of Mines and Technical Surveys: "Output reported by The Consolidated Mining and Smelting Co. of Canada Ltd., at Trail, B.C. (Some zinc sold in unrefined products is included in the table)".

Source: Department of Mines and Technical Surveys, Zinc in Canada with Comments on World Conditions (Memorandum Series No. 137, 1958).

Table 12

Production and Export
of Zinc, 1948-56

(tons)

Year	Zinc Concentrates		Refined Zinc	
	Production*	Exports	Production	Exports
1948	234, 164	54, 227	196, 575	144, 887
1949	288, 262	106, 684	206, 045	168, 307
1950	313, 227	129, 561	204, 367	146, 880
1951	341, 112	154, 593	218, 578	146, 132
1952	371, 802	181, 754	222, 200	166, 864
1953	401, 762	192, 657	250, 961	158, 388
1954	376, 491	180, 122	213, 810	206, 039
1955	433, 357	190, 585	257, 008	213, 837
1956	422, 632	199, 313	255, 601	183, 728

* Refined zinc produced in Canada plus recoverable zinc in ores exported.

Sources: For production of zinc concentrates, Dominion Bureau of Statistics, The Non-Ferrous Smelting and Refining Industry, 1952 and The Smelting and Refining Industry, 1956; for production of refined zinc, Department of Mines and Technical Surveys, Zinc in Canada with Comments on World Conditions (Memorandum Series No. 137, 1958; for exports, Dominion Bureau of Statistics, Trade of Canada).

Table 13

Domestic Sales of Zinc by Hudson Bay,
1948-55

(tons)

Year	ZOCO					Durham	Total Both Companies	Total All Domestic Customers
	F.N.P.	Electrolytic	Oxide	Special	Sub-Total	Industries Electrolytic		
1948	-	6,900	-	-	6,900	85	6,985	10,559
1949	-	3,040	-	-	3,040	-	3,040	10,200
1950	100*	3,950	-	-	4,050	-	4,050	14,729****
1951	320	3,630	-	-	3,950**	-	3,950	17,525
1952	-	206	3,000	-	3,206***	-	3,206	12,678
1953	50	-	600	3,713	4,363	-	4,363	17,783
1954	-	-	-	4,778	4,778	-	4,778	13,662
1955	-	150	-	5,257	5,407	-	5,407	18,692

- 175 -

* This information from Serial 812 but not included in return made by Hudson Bay as a formal order, Exhibit 10.

** This figure from Exhibit 10 but does not accord with data in Serial 813, where total is 4,100 tons with no composition given.

*** This figure from Exhibit 10 but does not accord with data in Serial 814, where total is 3,239 tons with no composition given.

**** This information from Exhibit 10 and presumably does not include 100 tons of F.N.P. zinc reported in Serial 812 as sold to ZOCO.

Sources: Exhibit 10 and Serials 658, 810, 812, 813 and 814.

Table 14

Domestic Shipments of Zinc
by Hudson Bay, 1948-55

(tons)

<u>Year</u>	<u>Brand</u>			<u>All Brands</u>
	<u>F.N.P.</u>	<u>Electrolytic</u>	<u>Special</u>	
1948	3,479	7,030	-	10,509
1949	5,267	4,759	-	10,026
1950	8,231	6,498	-	14,729
1951	10,325	7,200	-	17,525
1952	5,889	6,789	-	12,678
1953	9,223	4,996	3,564	17,783
1954	6,623	2,360	4,679	13,662
1955	9,816	7,125	1,751	18,692

Note: Discrepancies in figures between sales of Special brand zinc in Table 14 and shipments of the same brand in Table 15 are accounted for by the fact that other brands were often shipped to meet sales of Special brand zinc (see Evidence pp. 73 and 74). Similar discrepancies in total sales and total shipments data may be explained by the carry-over of sales from one year for shipment early in the next.

Sources: Exhibit 10 and Serial 798.

Table 15

Domestic Sales of Zinc by Cominco,
1948-55

(tons)

Year	Zinc Oxide Producers										All Customers							
	ZOCO				Durham Industries			Canadian Felling			Sub- Total	Prime Western	Special			Other Total		
	Prime Western	High Grade	Sub- Total	Prime Western	High Grade	Sub- Total	Prime Western	High Grade	Sub- Total	High Grade			Brass Special					
1948	180	-	180	1,115	10	1,125	-	-	-	-	1,305	26,708	6,556	6,761	1,040	-	41,065	
1949	195	-	195	2,355	90	2,445	-	-	-	-	2,540	24,332	3,940	1,812	1,520	-	31,604	
1950	350	1,400	1,750	3,598	270	3,868	-	-	-	-	5,618	30,120	6,855	3,430	1,240	-	41,645	
1951	385	1,535	1,920	3,500	235	3,735	-	-	-	-	5,655	26,911	8,917	5,385	640	-	41,853	
1952	300	-	300	1,465	110	1,575	-	-	-	-	1,875	24,617	6,293	3,261	1,465	-	35,636	
1953	225	-	225	2,425	70	2,495	-	-	-	-	2,720	23,463	4,994	1,931	1,720	-	32,108	
1954	50	-	50	2,400	115	2,515	165	15	180	2,745	24,475	5,382	1,639	1,620	-	-	33,116	
1955	50	-	50	1,395	65	1,460	405	5	410	1,920	24,639	7,460	4,476	4,821	8,300	49,696		

Source: Serials 2097 to 2133 inclusive, excluding Serials 2100 and 2124, and Serials 2053 to 2072 inclusive; and correspondence of Director with Cominco.

Table 16

Domestic Sales and Exports of Zinc
by Hudson Bay and Cominco,
1948-55

(tons)							
Year	Hudson Bay			Cominco			Total Both Companies
	Domestic	Export	Sub- Total	Domestic	Export	Sub- Total	
1948	10,559	39,236	49,795	41,065	108,224	149,289	199,084
1949	10,200	40,756	50,956	31,604	118,801	150,405	201,361
1950	14,729	33,541	48,270	41,645	114,876	156,521	204,791
1951	17,525	35,857	53,382	41,853	117,531	159,384	212,768
1952	12,678	51,042	63,720	35,636	114,776	150,412	214,132
1953	17,783	44,151	61,934	32,108	116,567	148,675	210,609
1954	13,662	54,414	68,076	33,116	156,249	189,365	257,441
1955	18,692	51,779	70,471	49,696	149,957	199,653	270,124

Sources: Data in Tables 14 and 16 and from Serial 798,
Exhibit 10 and correspondence of Director
with Cominco.

Table 17

Financial Data for Zinc Oxide Company of Canada Limited,
1945-56

Item	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Net Sales	\$ 2,015,030	2,605,466	4,052,305	2,450,404	1,112,170	2,062,787	2,584,004	1,692,370	1,392,725	1,390,611	1,517,551	1,490,286
Net Profit before Taxes	\$ 216,986	350,716	440,324	224,450	54,784	178,286	215,536	69,813	189,760	164,732	75,077	16,016
Net Income after Taxes	\$ 24,669	148,510	214,422	141,404	34,630	105,473	106,040	33,461	105,940	92,766	46,682	87,898
Surplus	\$ 191,977	296,380	506,723	642,499	670,450	494,523	119,243	53,277	181,618	146,487	187,541	127,284
Capital Stock:												
Common Shares	\$ 93,800	93,800	93,800	93,800	93,800	93,800	93,800	93,800	93,800	93,800	93,800	93,800
Preferred Shares	\$ -	-	-	-	-	-	347,000	321,900	294,990	310,600	307,070	201,070
Worth*	\$ 274,967	381,335	593,644	731,385	761,302	587,340	560,041	468,975	541,421	550,885	538,407	323,180
Net Income (after taxes) to Net Sales	% 1.2	5.7	5.3	5.8	3.1	5.1	4.1	2.0	7.6	6.7	3.1	3.3
Net Income (after taxes) to Net Worth	% 9.0	38.9	36.1	19.3	4.6	17.9	18.9	7.1	19.6	16.8	11.1	11.1
Earnings per Common Share after taxes	\$ 26.30	158.32	228.59	150.75	36.92	112.44	113.05	35.67	111.45	98.89	59.76	55.03
Total Dividends Paid:												
In Cash	\$ 5,628	5,628	5,628	5,628	5,628	281,400	5,628	5,628	5,628	5,628	5,628	5,628
In Pfd. Shares	\$ -	-	-	-	-	-	375,200	93,800	-	93,800	-	-
Dividends per Common Share†												
In Cash	\$ 6	6	6	6	6	300	6	6	6	6	6	6
In Pfd. Shares	\$ -	-	-	-	-	-	400	100	-	100	-	-

* Tangible net worth equal to capital stock plus surplus less patent rights and trade marks.

Source: Based on financial statements of ZOCO and information supplied by the company.

Table 18

Undepreciated and Depreciated Value
of Assets Employed in Production of
Zinc Oxide,
Zinc Oxide Company of Canada Limited,
1945-55

Year	Capital Cost Value Before Depreciation				Depreciated Value Total \$
	Machinery and Equipment	Rolling Stock	Office Furnishing	Total	
	\$	\$	\$	\$	
1945	44,139	4,337	1,392	49,868	10,982
1946	47,392	11,295	1,510	60,197	17,106
1947	50,336	15,736	2,418	68,490	20,026
1948	65,759	12,970	2,472	81,201	28,849
1949	66,043	14,273	2,866	83,182	25,147
1950	66,269	21,546	4,015	91,830	33,795
1951	68,344	28,614	6,716	103,674	34,601
1952	68,344	25,832	6,923	101,099	25,499
1953	68,435	26,066	7,050	101,551	22,479
1954	68,701	27,497	7,158	103,356	20,485
1955	74,950	27,497	7,212	109,659	20,559

Source: Audited balance sheets of the company.

APPENDIX C

Original French Text of Documents Cited in Report in Translation

Page at Which
Document
Cited

Letter dated January 5, 1955 from Mr. Fichet
to Mr. Cornillat:

" . . .

79

Et maintenant la guerre est commencée avec Durham et Felling's. Il y a environ 3 semaines le jeune Dickson qui est maintenant président de Pigment & Chemicals, les représentants de Felling's est venu me trouver flanqué de Red Johnson leur représentant à Toronto. Ces 2 gaillards voulaient relever les prix à 13.45, sans doute pour pouvoir plus commodément nous couper l'herbe sous le pied; je leur ai dit qu'avec la menace de la concurrence anglaise suspendue au dessus de nos têtes nous ne pouvions pas le faire. Aussitôt après, - mais nous venons seulement de l'apprendre, - ces gentlemen ont offert de l'oxyde à 12.35 (douze, trente-cinq) au lieu de 12.65 qui était le prix qu'ils trouvaient trop bas. Alors j'en ai eu assez et avec l'aide nos amis [sic] j'ai fixé le prix à 11.50 avec l'entente qu'à ce prix-là j'étais prêt à prendre leurs commandes pour tout le 1er trimestre. Du coup il y a des pleurs et des grincements de dents chez nos concurrents, d'autant plus qu'en faisant cette offre à la clientèle nous avons eu bien soin de leur dire que l'initiative ne venait pas de nous, que nous ne faisons que nous défendre. Durham et Felling's disent qu'ils se sont retirés du marché; mais comme ils sont aussi menteurs l'un que l'autre, ça ne m'impressionne pas. On verra dans 2 ou 3 mois ce qu'ils auront à dire. A ce prix-là nous ne perdons pas d'argent; après paiement de tous nos frais généraux il nous reste même 34 cents. Ce n'est pas gras; mais c'est vous dire que nous pouvons tenir le coup. Et si nous réussissons à augmenter notre tonnage au dessus de 500 tonnes par mois, les frais

généraux par 100 lbs. diminueront. Attendons les résultats. 79

. . . "

(Serial 62)

Letter dated April 15, 1955 from Mr. Fichet
to Mr. Boutry:

" . . .

94

BUSINESS [sic] Rien de nouveau à signaler. Je ne suis pas allé à Winnipeg parceque mon ami Buchanan n'y était pas; mais j'ai réussi à le persuader par téléphone de continuer pour le mois de Mai. Il doit passer la semaine prochaine à Toronto et arriver à Montréal le 23. . . . Du . . . [M. Waechter] rien. Il m'a bien téléphoné le Mardi 5; il m'a dit qu'à Londres il avait vu Felling's (celui qui a l'usine de Milton), qu'il était dégoûté et décidé à se retirer du marché canadien; qu'au surplus il n'avait pas d'argent tandis que Durham était associé avec Harrison & Crossfield et que ceux-ci pouvaient se permettre d'en perdre un bon paquet. A quoi je lui ai répondu que je n'en doutais pas mais que je n'étais pas moins persuadé qu'ils n'aimaient pas ça. En réalité j'avais dit au . . . [Mr. Waechter] qu'une fusion à 2 ne me paraissait pas intéressante s'il restait en dehors un 3ème larron avec une 'nuisance value'. Son jeu consiste donc à me persuader que Felling's est hors de course et que Durham peut tenir le coup indéfiniment. Pour Felling's il se peut que ce soit vrai car notre vendeur de Toronto m'a téléphoné hier qu'un agent d'immeubles était venu faire visiter l'usine de Felling's à un acheteur éventuel; néanmoins je le croirai quand toute la machinerie sera démenagée. Quant à l'histoire d'Harrison & Crossfield j'en doute. Qu'ils aient de l'argent, c'est certain; mais pourquoi iraient-ils en mettre dans ce bateau pourri dans lequel ils n'ont jusqu'à présent pas un sou? Pour sauver la mise de Durham? ce serait une grandeur d'âme inhabituelle chez les hommes d'affaires. Alors je

doute fort de toute cette histoire. Mais ce qui m'embête davantage c'est que le Waechter devait me téléphoner Mardi pour prendre rendez-vous et que je n'en ai pas entendu parler. Il a l'air beaucoup moins pressé. Et moi je ne peux pas lui téléphoner; je ne veux pas avoir l'air de courir après.

94

ZOCO. Comme je vous le disais dans ma dernière lettre le tonnage se maintient, mais les prix sont bas. Résultat: \$12,000 de bénéfice pour les 3 premiers mois. C'est pas chouia! Ce qui me console c'est de penser que les autres doivent tirer la langue encore bien plus que moi."

(Serials 71-3)

Extract from minutes of a meeting of the Board of Directors, Zinc Oxide Company of Canada Limited, held April 22, 1955:

" . . . 95

Le président soumet à l'assemblée que certains concurrents ayant coupé les prix de vente de l'oxyde de zinc aux clients, ZINC OXIDE COMPANY OF CANADA LTD a cru de bonne politique de couper les prix d'une façon plus forte et qu'un des résultats a été qu'il a été approché par un monsieur A. P. Waechter, qui aurait une option sur les actions de Durham Industries (Canada) Limited, dans le but de faire une fusion des deux compagnies ou de vendre toutes les actions émises du capital-actions de Durham Industries (Canada) Limited à Zinc Oxide Company of Canada Ltd.

Après discussion, sur motion dûment proposée et secondée, il est unanimement RESOLU: QUE cette compagnie ne fasse pas de fusion avec Durham Industries (Canada) Limited, mais autorise le président à continuer ses négociations en vue de l'achat de toutes les actions émises du capital-actions de Durham Industries (Canada) Limited.

DE PLUS RESOLU: QUE le président soit autorisé à faire faire l'évaluation des actifs immobiliers de

Durham Industries (Canada) Ltd.

95

. . ."

(Serial 74)

Letter dated May 5, 1955 from Mr. Fichet
to Mr. Boutry:

" . . .

95-96

D. fait actuellement entre 3.000 et 3.500 tonnes par an. Si l'autre n'est pas mort il héritera certainement d'une partie du tonnage, d'une part parceque certains consommateurs ont pour principe 'to split the business', et d'autre part parceque nous somme français ou canadiens-français et installés dans la province de Québec alors que les autres sont canadiens-anglais établis dans l'Ontario et que la maison mère est du United Kingdom. Or vous connaissez la mentalité de l'Ontario; je n'insiste pas. Mais si nous en gardions la moitié, soit 1.500 ou 2.000 tonnes ce serait une bien belle affaire, car mes frais généraux ne seraient pas augmentés d'un sou et seraient déjà payés par notre production actuelle. Je les calcule maintenant à \$1.25 par 100 lbs. soit \$25. la tonne. Ces 1500 ou 2000 tonnes me rapporteraient donc \$37.500 ou \$50.000 en plus du bénéfice normal; cela vaudrait la peine de risquer le coup. Mais vous devinez à combien de cogitations je me suis livré et combien de papier j'ai usé à faire des calculs avant d'en arriver à ce que je viens de vous exposer. Si les autres, ceux de Milton, pouvaient mourir aussi, ce serait encore mieux puisqu'alors le supplément de bénéfice deviendrait \$75 ou 100.000.

. . ."

(Serials 76-7)

Letter dated May 17, 1955 from Mr. Fichet
to Mr. Waechter:

"A la suite de nos différentes entrevues, j'ai 96-97
soumis à notre Conseil d'Administration la proposi-
tion que vous m'avez faite ainsi que les documents
produits à l'appui. Je suis autorisé à vous faire
l'offre suivante:

ZINC OXIDE COMPANY OF CANADA LIMITED
est prêt à acheter de vous la totalité des actions
ordinaires émises, soit 5.000 (cinq mille) actions
ordinaires de DURHAM INDUSTRIES (CANADA)
LIMITED à un prix global de \$200.000 (Deux cent
mille dollars). plus ou moins les différences qui
pourraient exister entre le bilan établi à la date de
la vente et celui au 31 Décembre 1954 qui a servi de
base à nos calculs. Au cas où cette transaction
pourrait être conclue, il est entendu qu'elle restera
secrète et que vous vous engagez à ne pas divulguer
sans notre autorisation l'identité du véritable acquéreur.

Cette offre est valable pour un mois à dater de
la présente, soit jusqu'au 17 Juin 1955 inclus.

..."

(Serial 92)

Letter dated June 1, 1955 from Mr. Fichet to Mr.
Waechter:

"Comme suite à ma lettre du 17 Mai et à notre 97
entrevue du 31, je vous confirme que notre Conseil
d'Administration m'a autorisé à porter à \$205.000
(deux cent cinq mille dollars) l'offre qui figurait dans
ma lettre du 17 Mai pour \$200.000 les autres conditions
demeurant inchangées.

..."

(Serial 98)

Extract from minutes of a meeting of the
Board of Directors, Zinc Oxide Company of Canada Limited,
held June 16, 1955:

" . . .

97-98

Le président fait rapport à l'assemblée qu'il
a conclu avec M. A. P. Waechter, une entente pour
l'achat de toutes les actions émises du capital de
Durham Industries (Canada) Ltd. pour la somme de
\$205.000, sur laquelle somme doit être déduit le
montant des pertes d'opérations de Durham Industries
(Canada) Ltd, du 1er janvier 1955 au 6 juin 1955.

Après discussion, sur motion dûment proposée
et secondée, il est unanimement RESOLU: D'approuver
l'achat par cette compagnie de toutes les actions
émises du capital de Durham Industries (Canada) Ltd.
pour la somme de \$205.000 sur laquelle somme doit
être déduit le montant des pertes d'opérations de
Durham Industries (Canada) Ltd. du 1er janvier 1955
au 6 juin 1955.

DE PLUS RÉSOLU: QUE les actions de Durham
Industries (Canada) Ltd. soient déposées au Montreal
Trust Co. et enregistrées au Montreal Trust Co. et
que les administrateurs et officiers soient des membres
du personnel de Montreal Trust Co."

(Serials 106-7)

Letter dated July 11, 1955 from Mr. Fichet to Mr.
Cornillat:

" . . .

98

L'affaire Durham est réglée: cela nous coûte
\$175.422.96. Je crois que c'est une bonne affaire.
Mais il s'agit de n'en pas parler car je ne voudrais
que les gens comme Dominion Rubber qui ont pour
politique 'to split the business' le divisent maintenant
entre nous et Felling. Alors officiellement c'est
Waechter qui a acheté. Les titres seront au nom du
Montreal Trust qui nous fournira aussi des adminis-
trateurs de sorte que ni le nom de ZOCO ni celui de

Fichet, ni celui de quelque personne plus ou moins affilié à ZOCO n'apparaîtra. . . . 98

. . . "

(Serial 113)

Letter dated May 17, 1955 from Mr. Fichet to Mr. Cornillat:

" . . . Je crois donc que ce serait une très belle affaire pour ZOCO et j'espère que nous pourrions l'avoir. Quant à Felling je les ai fait sonder par Londres pour savoir s'il n'y aurait pas moyen de les acheter aussi; ils ont répondu: 'Faites-nous une offre'. A quoi j'ai dit que je ne pouvais pas faire une offre sans savoir quelle était leur situation. On n'achète pas une enveloppe fermée sans savoir ce qu'il y a dedans. Alors j'attends. Mais j'ai l'impression qu'ils commencent à avoir faim. Ce matin encore notre vendeur de Toronto nous a dit que le vendeur de Felling qui est aussi leur 'sales manager' voulait convoquer Durham et nous pour une conférence en vue de remonter le prix de l'oxyde. Mais je ne suis pas pressé; j'aimerais mieux les laisser mourir de leur belle mort. 104

Si l'affaire Durham se fait, il est essentiel que cela ne se sache pas car nous devons garder Durham en exploitation au moins pendant un an ou 2 afin de pouvoir nous servir de leurs pertes accumulées. Et je ne voudrais pas qu'une partie de leur tonnage aille à Felling et le revigore. Alors Motus! Je compte sur votre discrétion.

. . . "

(Serials 90-1)

Letter dated May 24, 1955 from Mr. Fichet to Mr. Boutry:

" . . . Alors si nous réussissons à acheter Durham, je vais simplement tâcher que ça ne 104-105

s'ébruite pas trop pour ne pas apporter d'eau au moulin de Felling et je vais continuer à exploiter Durham sans rien changer à l'organisation jusqu'à ce que nous ayons utilisé complètement leur perte accumulées. Entre temps j'essaye de voir si on ne pourrait pas avaler aussi le Felling en question. Je serais le trust de l'oxyde de zinc.

. . ."

(Serial 95)

Letter dated June 6, 1955 from Mr. Fichet to Mr. Boutry:

". . .

106-107

A la Zinc Oxide, la guerre continue: Felling, le gars de l'Ontario, a trouvé spirituel d'offrir à nos clients 1% d'escompte; à quoi j'ai répondu par une baisse de \$0.25 par 100 lbs. Du coup il y a des grincements de dents. Ritchie est assailli de coups de téléphone du directeur de Felling protestant qu'il n'a pas coupé les prix. Je le laisse dire, mais je maintiens le nouveau prix. En parlant ce matin avec le directeur de Durham, Ritchie s'est fait demander si je n'avais jamais songé à fusionner avec Durham ou à les acheter. . . . Je crois que cette insinuation était destinée à m'en donner l'idée et que leur situation financière et surtout leur situation de trésorerie ne doit pas être brillante. J'attends la réponse d' . . . [Mr. Waechter] qui a jusqu'au 17 pour se décider. ZOCO, lui, ne va pas mal en dépit de la guerre de prix. En Mai, bien que nous ayons payé aux employés \$10.000 à titre de participation aux bénéfices de 1954, nous avons gagné \$19.400 et notre fonds de roulement était de \$518.000, ce qui permet de voir venir les autres. Mais je voudrais bien que ça finisse, toute cette histoire-là car j'y médite 16 ou 17 heures par jour et je suis en voie d'en devenir maboul. . . .

. . ."

(Serials 100-1)

Letter dated June 12, 1955 from Mr. Fichet to
Mr. Cornillat:

" . . .

108

. . . Depuis ma dernière baisse d 1/4 de point, Felling paraît bien gentil; ils ont supprimé l'escompte de caisse de 1% et ne vendent plus le L.C.L. livré qu'à Montréal, Toronto, Hamilton et Kitchener. Moi je ne veux pas me lancer dans cette business là, mais je pense y lancer Durham et leur faire vendre le L.C.L. livré dans tout l'Ontario. Je ne crois pas que cela leur apporte beaucoup de tonnage, mais cela obligera Felling à suivre et j'espère que ça augmentera la perte qu'ils font déjà et accélérera la dégringolade.

. . . "

(Serials 104-5)

Letter dated July 11, 1955 from Mr. Fichet to
Mr. Cornillat:

" . . .

108-109

[M. Waechter] a rendez-vous aujourd'hui à Londres avec Felling. Il s'agit de lui expliquer qu'ils sont les dindons de la farce, que plus ils resteront au Canada, plus ils perdront d'argent puisqu'il n'y a aucun espoir qu'ils viennent à bout ni de Durham ni de ZOCO et qu'en ce moment ils ne paient que pour assouvir la vengeance personnelle de Mr. Walter Dickson contre Durham. A la rigueur je leur paierais bine [sic] un petit quelque chose pour qu'ils f. . . le camp. Je n'aime pourtant pas céder à un chantage, mais ce serait vite rattrapé si nous étions seuls producteurs au Canada. . . . [M. Waechter] doit me télégraphier ou me téléphoner le résultat de l'entrevue.

. . . "

(Serial 113)

Letter dated August 29, 1955 from Mr. Fichet
Mr. Cornillat:

" . . .

109

Chez ZOCO rien de nouveau. Nous allons faire 550 tonnes en Août, ce qui ne serait pas mal, mais à des prix de misère. Felling's s'obstine à ne pas crever. . . . [M. Waechter] est allée [sic] les voir au début de Juillet; ils venaient de recevoir de Pigment & Chemicals, leurs agents de Montréal, une information suivant laquelle Durham était en train de mourir, ce qui signifiait que la guerre de prix allait finir et qu'ils allaient faire des bénéfices. . . . [M. Waechter] doit y retourner ces jours-ci et leur révéler qu'il est le président actuel de Durham, qu'il a derrière lui un groupe puissant et qu'il n'a pas la moindre intention de se retirer des affaires, mais au contraire de leur faire une lutte de plus en plus sévère. On verra l'effet que leur fera cette douche. En attendant j'ai coupé tant que j'ai pu les dépenses de Durham; c'est tout ce que je peux faire pour le moment. Comme le prix de vente ne représente même pas le prix de leur matière première, des frais directs de fabrication, des sacs et les frais de livraison, il n'y a pas intérêt à augmenter leur tonnage puisque cela ne ferait qu'augmenter leur perte. Mais je ne pense pas que ce soit catastrophique pour Août. Et ce qui me console c'est que ce doit être au moins aussi mal pour Felling's.

" . . ."

(Serial 137)

Letter dated August 30, 1955 from Mr. Fichet
Mr. Boutry:

" . . .

110

Business [sic] J'ai appris hier quelque chose qui me comble de joie: Felling's aurait depuis un an perdu 40.000 livres. A \$2.75, cela fait \$110.000.

Comme ils avaient mis en jeu \$150.000, il n'en resterait pas beaucoup et il y aurait de l'espoir qu'ils crèvent bientôt. Je me ferais une raison.

110

..."

(Serials 138-9)

Letter dated September 9, 1955 from Mr. Fichet to Mr. Boutry:

"..."

110-111

... [M. Waechter] doit être maintenant en Angleterre et doit essayer de les persuader qu'ils [Felling England] feraient bien mieux de liquider tout de suite. Pour arriver à ce résultat j'ai dit au ... [M. Waechter] de les convaincre que Durham ne lâcherait pas et que la guerre de prix durerait jusqu'à ce [que] eux, Felling's, abandonnent la partie. Par contre, s'ils voulaient lâcher tout de suite, ils économiseraient d'abord ce qu'ils perdent tous les mois et ensuite nous pourrions leur racheter leur machinerie qui ne vaut en réalité que le prix du scrap, pour \$15 ou \$20.000. Au contraire s'ils sont amenés à liquider dans quelques mois, nous ne rachèterons rien du tout et cela augmentera d'autant leur perte.

Je voudrais bien que ça se règle rapidement, d'abord parce que Hudson Bay ne nous soutiendra pas indéfiniment. Voici 8 mois que tous les mois je déplois des trésors d'éloquence pour les décider à tenir un mois de plus; jusqu'à présent j'ai réussi, mais je sens que je suis au bout de mon rouleau. Or ce n'est que grâce à eux que nous avons pu soutenir cette guerre de prix et faire tout de même \$61.000 de bénéfices en 8 mois. Et puis il y a Durham qui, lui, n'a pas Hudson Bay pour l'épauler. En Juillet ils ont perdu \$5.500 et en Août \$8.900. C'est pourquoi je suis pressé de voir la fin de la bagarre; mais j'aimerais bien que la fin de la bagarre soit aussi la fin de Felling's. On pourrait alors travailler tranquillement.

..."

(Serials 141-2)

Letter dated September 24, 1955 from Mr.
Fichet to Mr. Boutry:

" . . .

111 to 113

. . . En conséquence la seule chose qu'ils [Felling] ont à faire est de mettre de côté leur orgueil, amour-propre, fierté (appelez ça comme vous voudrez), liquider leur société canadienne et, sous prétexte de vente de machinerie qui en réalité ne vaut rien, toucher de nous \$15 ou \$20.000 pour f... le camp. . . . Si Felling's disparaissait, je pourrais, par paliers, remonter les prix jusqu'à un niveau normal et faire gagner de l'argent non seulement à Zoco mais aussi à Durham. Je suis d'autant plus pressé que Mercredi dernier nous avons eu ici la visite de Buchanan, le représentant de Hudson Bay; il nous a dit . . . qu[il] doute [que s'il y avait un nouveau Président] qu'il consente à vous vendre du zinc au dessous du prix du marché comme nous le faisons depuis 10 mois. C'est pourquoi l'affaire Felling's presse de plus en plus. J'ai encore obtenu un prix spécial pour Octobre, mais pour Novembre il n'y a rien de garanti. Si les négociations avec Felling's étaient alors suffisamment amorcées, je n'y regarderais pas à continuer la guerre à nos seuls frais pendant un mois ou 2; mais s'il n'y a rien de commencé je serai obligé de baisser pavillon. C'est pourquoi j'attends avec tant d'impatience le rapport de [M. Waechter]. Je crois que c'est Foch ou Pétain qui a dit que la victoire appartenait à celui qui tenait un quart d'heure de plus que l'adversaire. J'ai l'impression que nous sommes au dernier quart d'heure. C'est une guerre de nerfs. Je suis heureusement assez solide sous ce rapport et réussis à donner l'impression d'une parfaite tranquillité, mais entre nous c'est du chiqué! C'est une grosse partie que je joue là. Si je gagne, ZOCO reste seul producteur au Canada et la vie est belle; mais si je perds, c'est à dire si Felling's ne disparaît pas, j'aurai sacrifié un an de bénéfices ou à peu près, et la lutte continuera aussi serrée que par le passé. On devrait voir la semaine prochaine comment se présente l'enfant.

. . . Pour la comptabilité j'ai déjà commencé à la réorganiser afin qu'on y comprenne quelque chose et qu'on puisse en tirer des enseignements sur ce qu'il y a à faire pour rendre cette affaire payante ou au moins, moins perdante; car je n'espère pas la faire payer tant que la guerre de prix ne sera pas réglée. Ce qui me reconforte c'est de penser que les adversaires ne sont pas mieux que moi, bien au contraire. Un ancien vendeur de Chemicals, un ami de Ritchie, a rencontré la semaine dernière Robert Dickson, le président de Felling's (Canada) et lui a innocemment demandé comment allait son affaire d'oxyde de zinc. Dickson lui a répondu: 'This darn thing is driving me crazy! We did not sell a pound of zinc oxide on which we did not lose money.' Et je crois que c'est vrai. Tandis que nous avions \$61.000 de bénéfices au 31 Août et en Septembre nous devrions avoir fait entre \$8 et \$10.000. A part cela nous avons encore plus de \$300.000 de fonds de roulement, ce qu'ils n'ont certainement pas.

Si je réussis à les reconduire chez eux à coups de botte dans le train, nous devrions avoir la paix pour quelque temps car les autres fabricants anglais devraient être calmés. S'ils voient les 2 principaux fabricants d'oxyde contraints de lâcher les pédales et de se retirer en y laissant de grosses plumes, ils ne devraient pas être très tentés de renouveler l'expérience.

. . . "

(Serials 145-6)

